EDC's Magazine for Canadian Exporters

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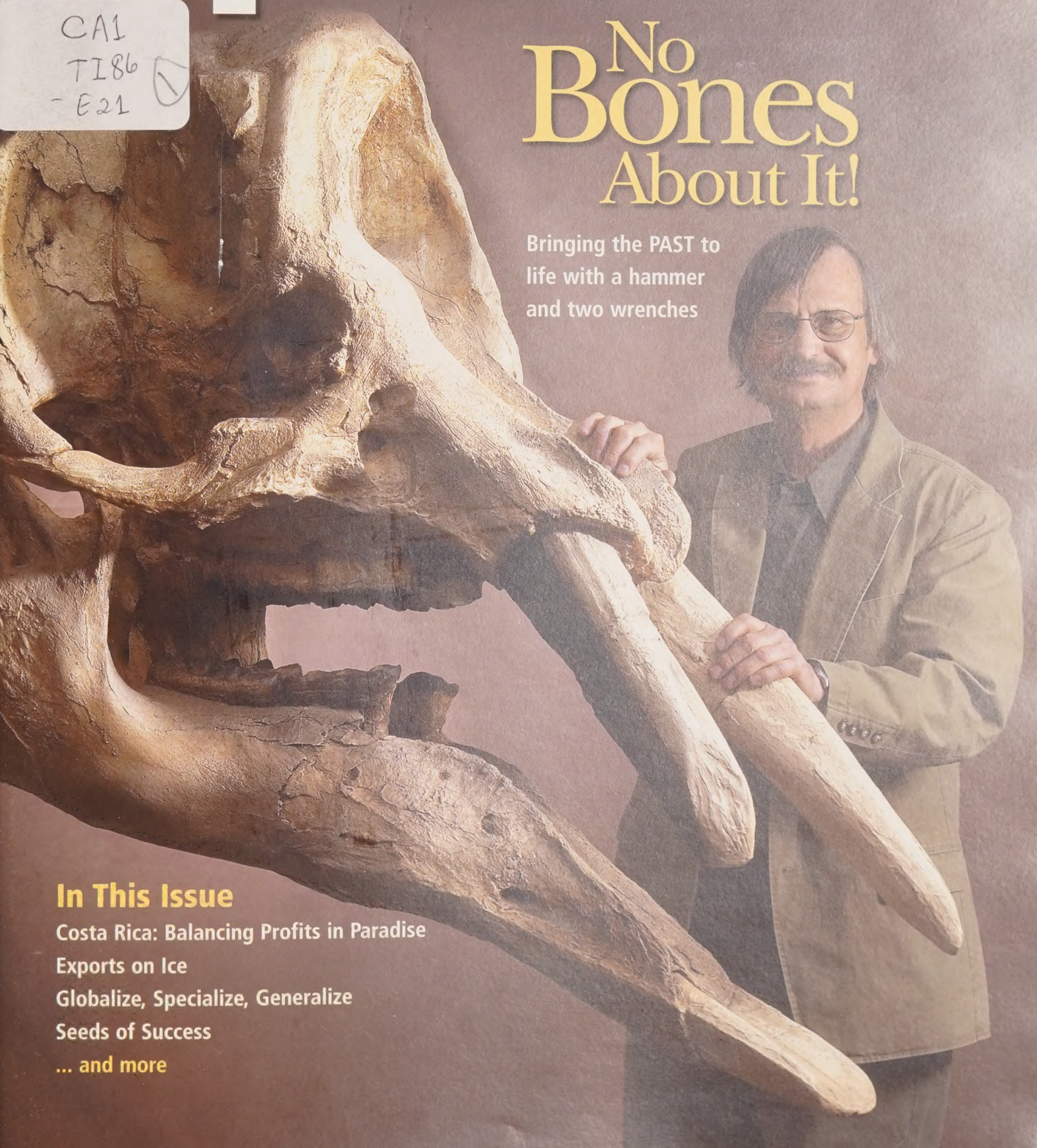
Summer 2004

ExportWise



No Bones About It!

Bringing the PAST to life with a hammer and two wrenches

In This Issue

Globalization and Canadian Exports to Developing Markets

With global economic growth on a firmer footing, a number of leading economic indicators point to better performance in developing markets during 2004 and 2005. So what is EDC doing to help Canadian exporters and investors ride this wave of opportunity in those markets?

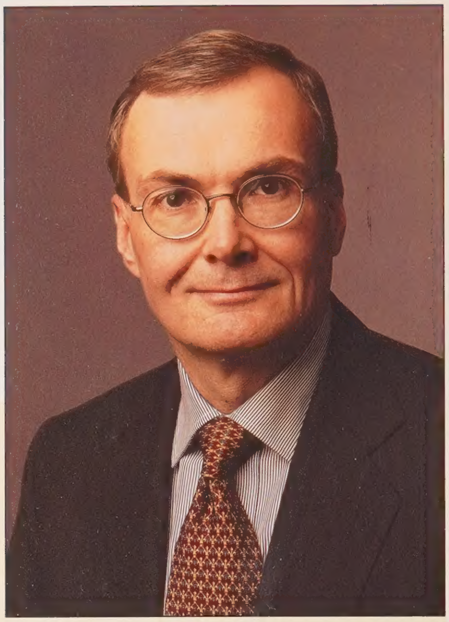


Photo: Martin Lipman

A. Ian Gillespie, President and Chief Executive Officer

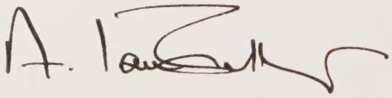
In the late 1990s, during a period of rapid growth in the volume of Canadian exports supported by EDC, we determined that setting up local EDC representatives in the fastest-growing developing markets would be one of our most effective long-term strategies to help Canadian companies. Initially, we established representatives in China, Mexico and Brazil; and, more recently, in Poland and Malaysia. These countries attracted us because of their growing per capita incomes, opportunities for significant export sales and, in some regions, because of existing trade ties with Canada.

By living and working in the region, our representatives are developing long-term business relationships and partnerships. With their ears to the ground, they are gathering local intelligence about market opportunities and risks, and their expert knowledge of international trade, combined with their understanding of legal frameworks and cultural traditions, enables them to work in collaboration with Canada's Trade Commissioners abroad as trade facilitators.

This strategy has brought early dividends in Brazil and Mexico in particular, where the opportunities for Canadian exporters and investors are so great, that in addition to our original representatives in São Paulo and Mexico City, we now also have representatives in Rio de Janeiro and Monterrey.

Local representation remains one of our key responses to trade globalization. Global supply chains have made it imperative for Canadian companies to seek foreign export and investment opportunities. Increasingly, components of a final product are produced wherever it's most cost-effective to do so. Developing markets are, therefore, potentially both a part of the supply chain and a final export destination. To compete, Canadian exporters need solid relationships with their foreign suppliers and buyers, relationships that EDC's local representatives help to broker. By building their global supply chains, Canadian businesses are part of a growing global trend whereby businesses generate revenues and profits not only by exporting and importing goods and services, but also by investing abroad and/or attracting inbound foreign direct investment to make their business model more competitive. Profits and dividends from foreign investment are transferred between countries and are then reinvested in even more trade and stronger economic growth.

Looking forward, EDC's challenge is to find solutions that meet the unique opportunities and challenges of Canadian companies doing business abroad. Our local representatives are important in helping us adapt to evolving international trade tactics and strategies, particularly as Canadian companies make direct investments overseas to build their global supply chains. EDC's goal is to ensure our products and services remain relevant to Canadian companies when the benefits to Canada are less direct than with an export sale. I am confident that we will continue to provide groundbreaking commercial financial solutions to companies of all sizes, helping them to succeed in the global marketplace and create enduring prosperity for Canada. ■



A. Ian Gillespie, C.I.T.P.

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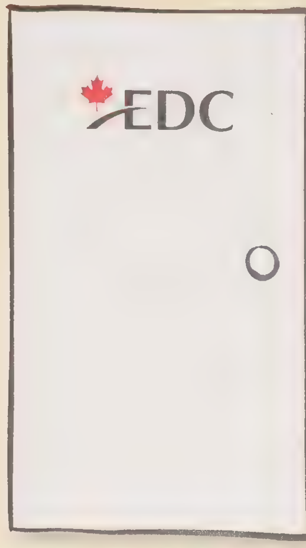

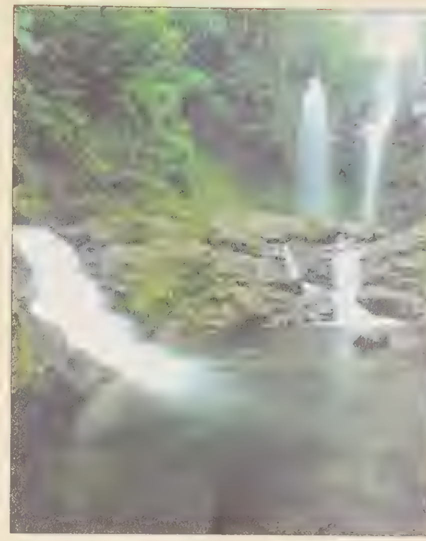

Cover: Giles Danis, President of Prehistoric Animal Structures, is pictured with the skeleton of a Gomphotherium. Photo by Martin Lipman

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Show Stoppers: The Power of Trade Shows

BY **BRIAN KEOBKE**

Your new product is finally ready and you are poised to take on the world. The only thing you need now is customers! Of course, there are many marketing options available to you, but trade shows are quickly becoming the most effective way for companies to expand their markets by targeting high-potential prospects. Next to direct sales, companies are spending more on trade shows than any other area of their marketing mix.

More than 50 per cent of all qualified sales leads are closed during the trade show, without the need for additional face-to-face contact.

Trade show power

One industry statistic that has remained constant over the years is that more than 85 per cent of the average trade show audience is made up of final decision-makers, as well as those who influence which products and services are eventually bought. As well, more than 50 per cent of all qualified sales leads are closed during the trade show, without the need for additional face-to-face contact (sources: Exhibit Surveys Inc., Trade Show Bureau).

These statistics reinforce the importance of integrating trade show participation into your marketing mix.

With all the various marketing tools available to you such as advertising, web sites, email, direct mail and telemarketing, trade shows are still far and above the most efficient vehicle for achieving sales objectives. Why? Because they afford you the opportunity for personal contact with many committed buyers who are all under one roof at one time ... and they are there to buy! As well, you can reach out to new prospects that your sales staff have not yet called on while strengthening relationships with existing customers. Your chances of generating a strong lead and closing a sale at a show are much greater since you can present your product and develop a personal rapport in a manner not possible with other marketing methods. It also gives you an opportunity to present your value-added solutions to customers that are currently dealing with your competition – potential customers who might not normally invite you to their office for a one-on-one presentation.

It is important to note that adopting a trade show program which integrates other tools such as pre-show advertising and targeted direct mail can sharply increase the number of visitors to your booth and the conversion into qualified leads. (source: Power of Exhibitions II).

Choosing the right show

When asking yourself which trade show you should participate in, first focus on who your target buyers are and the shows they are likely to attend. Then decide if the show fits your company's image, budget and overall marketing plan. Ask if the show has a good reputation and solid attendance record. Who has participated in the past? Who is participating now? If at all possible, meet with the show promoter and get references from past exhibitors who you can call and review their experience. Once you have decided on a show, establish sales objectives that are easy to measure and evaluate. Confirm set-up times, booth location and other logistics and refer to the exhibit manual for further details. Have all your displays and graphics designed well in advance in order to avoid stress and expensive mistakes.

Location, location, location

Sometimes overlooked in the excitement of attending a new show is the location. If you plan to establish your company in a new area, make sure that your budget will support frequent follow-up visits. For this reason, choosing a show closer to your home base might be the best way to explore a new market. For example, in British Columbia the easiest market to try and develop first is Seattle, which is only a two-hour drive away. New York may be a bigger market, but what's the point if you can't afford to go there.

Working the show

While you are at the show remember that the buyers are there to be informed about your product or service, so be ready to give them the information they need quickly and concisely. A trade show display with high impact graphics can help you achieve this by grabbing a buyer's attention long enough for you to speak with them. Most trade show attendees are looking to evaluate new products, make new contacts, get solutions to specific problems and make purchasing decisions.

Also keep in mind that with the high cost of travel and accommodation, many show attendees will have to report to management on what's new and interesting.

Make sure that your booth is managed by a well-trained staff armed with excellent product knowledge and capable of demonstrating your product effectively. A staff that projects a professional image reflects well on your company and helps promote your company's reputation.

After the show

Employ a formal follow-up system so that no qualified leads are overlooked after the show. This is of prime importance, not only to you but to the client who may be looking to form a new relationship.

If you don't follow up on your leads, then there really is no reason to attend the show in the first place! ■

Brian Keobke is one of only three Certified Managers of Exhibits in Canada and is a specialist in exhibit marketing. You can contact him via email at bkeobke@theportables.com. For more information, visit www.theportables.com.

No Bones About It!

BY **CRESSIDA BARNABE**

Exporting dinosaurs is tricky business, but Prehistoric Animal Structures has carved out a niche market by bringing these magnificent creatures back to life.

Fifteen years ago, the signs were all there that Alberta-based Prehistoric Animal Structures Inc. was on to a good idea. Not four days after opening their doors in October 1989, two faces appeared in the window as Gilles Danis and his partners Don Jeffrey and Keith Russell (now both retired) were burning the midnight oil. Deep in the middle of cattle country, the gentlemen were looking for a vegetarian restaurant … oh, and they just happened to have a dinosaur they needed mounted.

Not such a crazy idea after all

The idea of forming a private company that specialized in mounting skeletons for museums and exhibitions, came while Danis and his partners were working for the Royal Tyrrell Museum in Alberta. A Japanese publishing group wanted to rent a dinosaur exhibit for the summer and bring it back to Japan. While their original request was turned down, an alternative was proposed, and as a result, Danis headed a team seconded to Japan to build and install a special exhibit. While working on the project, Danis asked himself, "What's the chance that there's a market for dinosaurs in the world? Zero-to-half a per cent – but we'll do it anyway!" And so began Prehistoric Animal Structures (PAST). It was while they were preparing for their trip to Japan, that Danis and his partners had a visit from their vegetarian friends – the first of many contracts.

PAST set up shop in East Coulee, Alberta, a small community 150 kilometres from Calgary near Drumheller. The Drumheller Valley is best known as the "Dinosaur Capital of Canada" because of the numerous Late Cretaceous dinosaur fossils that have been found there. The location gave Danis and his team the perfect backdrop for the business.

Their first two projects – one for the vegetarians (a.k.a. the Science Museum of Minnesota) and the other for the Field Museum in Chicago – saw them on-site for months at a time building the skeletons. "In the early days, we essentially exported ourselves," explains Danis. "Because both projects were large in size, involving several original fossil skeletons of very large specimens, the museums deemed that it would be more economical, and there would be less risk to the specimens, if the crew stayed on-site for the duration of the project.

"In most instances, museums do not have adequate laboratories to accommodate large-scale casting and mounting of skeletons," adds Danis. "They are equipped for scientific research preparation and casting, not fabrication shop conditions. Therefore, they prefer paying the costs of shipping one or more specimens back and forth and that's how we've been able to grow our business."

A hammer and two wrenches

Because of the size and number of bones in the average dinosaur (upwards of 300), the company can't keep all the bones in stock or they would quickly run out of room. Instead, they keep the molds and cast the bones for each project as needed. Once the bones are ready, a steel skeleton is created and the dinosaur is ready for assembly. It's at this stage you might call PAST the IKEA of dinosaur reconstruction. Their innovative connectors mean that a dinosaur can be assembled using only three tools: a hammer and two wrenches. "Our connectors are what set us apart in the industry," explains Danis. "Once you've assembled one of our dinosaurs, the next will go together exactly the same way – an important consideration for museums where skeletons are taken apart often and removed for study." PAST is one of only a dozen or so companies in the world that specialize in casting and mounting dinosaurs.

Photo: © Mike Todor Photo

In addition to mounting full-scale dinosaurs and marine reptiles and mammals, PAST has a range of products for museum display and educational purposes. They produce tiles that can be cast in any material, and when prepared appear as skeletons embedded in earth, enabling children – or adults for that matter – to "unearth" the skeletal remains of a dinosaur, recreating what could be potentially found at a dig site. Another product is an interactive display of a relief cast of a juvenile Hyapcrosaur inset into a recessed table. The skeleton provides the base for fleshing out the body using clay and texturing tools.

PAST owns a number of these skeleton molds for museums to purchase. Of these, mammoths have been a very popular item to the point where PAST has unofficially adopted the motto "Mammoths-R-Us."

Setting their sights on exports

Having worked in the museum industry for so many years, Danis and his partners knew their customer base would not be Canadian; instead, they would need to set their sights on museums in rich nations such as Japan and the United States.

At first, Danis saw EDC insurance as "an extra cost." But a trip to the bank and a suggestion from a banker that EDC Accounts Receivable Insurance could not only protect his revenues but also help him secure additional working capital, helped change his mind. "Having EDC insurance in place has acted as a 'security blanket' for us. Fortunately, we have not had to file any claims, but before buying this insurance we had a customer who could not afford to pay us. We were able to come to an agreement and didn't lose our shirts on the deal, but I knew the day would come when we wouldn't be so lucky," reflects Danis.

While PAST continues to mount more dinosaurs of increasing size and complexity for clients around the world, Danis is searching for new opportunities to help grow his company. In addition to looking at expanding into developing markets such as Africa and Brazil, he is considering a new dimension to his business – fleshed-out versions of dinosaurs. "We are able to create an interpretation of what the animal would have looked like," explains Danis. "This type of product is entirely artistic so our recreations will have a personal touch that makes them truly unique."

While this is not a new idea – there are several studios that specialize in this kind of work – the demand and interest has been so intense that PAST is looking at expanding its facilities and adding additional staff.

PAST is also working with EDC to find new ways to grow their business. Because of the long production cycle, the company often doesn't have sufficient working capital to cover expenses before they get paid. PAST intends to use EDC Pre-Shipment Financing and Guarantees to obtain the needed capital to cover their production costs. "It's a risky business," adds Danis. "Not everyone needs dinosaurs." ■

COMPANY PROFILE

Company: Prehistoric Animal Structures Inc.
Business: Manufacturer of dinosaur molds and casts
Location: East Coulee, Alberta
Established: 1989
Employees: 7
Annual Sales: $1 million
Exports: 90%
Export Markets: United States, Asia
Contact: www.past.ab.ca

Export or Perish

Canadian companies need to identify their unique competitive advantage and focus on it in order to succeed in the global marketplace.

BY **ELLIOT LIFSON**

The impact that changes to international trade regulations – scheduled to take effect January 1, 2005 – will have on apparel manufacturing in Canada are wide and varied. On that date, the World Trade Organization will eliminate the quotas that have until now controlled the trade in clothing between countries, leaving Canada to face a deluge of imports from low-wage countries, in particular, China.

Faced with the urgency of the situation, some Canadian companies may actually end up more competitive than they are now. But some will certainly disappear. The challenge facing the industry today is to recognize that it is facing transformational change, and to take steps to manage that change promptly and effectively. The task of individual companies is to identify their unique competitive advantage and to focus on it in order to succeed in the global marketplace.

Canadian apparel manufacturers can compete against imports according to one or more of three business models. They can be the low-cost producer – which is not on the horizon, although Canadian companies can have a favourable price/value relation. They can rely on innovation, for which we have the design capability and talent to produce fashion products. Or they can compete on service, which means flexibility, quick response and everything that supports it.

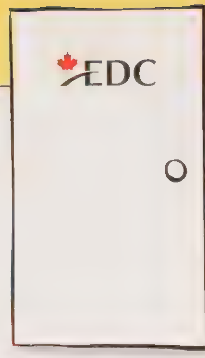
Certainly our most important advantage is our proximity to the U.S. marketplace. Although the United States is our largest export client, there is still enormous room for growth. We currently own only one per cent of the U.S. market. If we could double that to two per cent, the increase would make up for some of the losses we face. Canadian companies have to identify their strengths in the value chain for all the activities that they perform in order to capitalize on the source of their competitive advantage.

We, the members of the Canadian Apparel Federation (CAF) can attribute a large part of our current export success to EDC. With its assistance, CAF has been able to put in place an innovative insurance program to help small exporters by providing them with the same type of savings that we have been able to offer larger exporters in the past. But even more important than savings, EDC has provided valuable advice and support to smaller exporters, many of whom did not know how to prepare the necessary paperwork when they started out.

The strong and productive relationship between the Federation and EDC is a great example of what can be achieved when business and government work together. ■

Elliot Lifson is President of the Canadian Apparel Federation, a national association for the apparel industry. For more information, visit their web site at www.apparel.ca.

Delivering on Your Commitments: Large Projects



BY **SANDI** AND **DENNIS JONES**

Canadian companies delivering on large projects in developing markets must often cope with issues such as cultural differences, political or civil instability, or abrupt changes in a customer's financial situation. Fortunately, exporters that are just setting out into these waters can learn much from the experience of businesses that have preceded them.

Practice, practice

Many Canadian companies that successfully complete such major projects do so through joint ventures with another firm already in the market. Others have an established relationship with the host country and have already proven themselves on smaller projects there.

But one characteristic they share is a commitment to international best practices. "These firms have a commitment to excellence that doesn't vary even when they're working in the most difficult markets," says Rob Forbes, EDC Vice-President of Energy, Infrastructure and Services. "Along with the newest technology, they bring with them the most advanced practices for dealing with the social and environmental impacts of their projects. EDC also ensures that the projects it supports employ international best practices, through its rigorous processes for reviewing a project's potential social and environmental impacts. And in a general perspective, EDC's commitment to responsible trade is underpinned by its Environmental Review Directive, its anti-corruption policies and its disclosure policies."

Respectfully yours

One aspect of the best-practices approach is respect for the customer's country and culture. Such respect can help make the difference between a smoothly

Respect for people, understanding of the work, and fiscal prudence in your commitments – they're vital ingredients of success in any market.

running project and one that is plagued by difficulties. This is certainly the view of Gerald Murray, Vice-President of Project Development and Financing for Dessau-Soprin, a Quebec company specializing in infrastructure development projects in Latin America, the Caribbean and North Africa. "Rule number one," Murray observes, "is that you have to show a lot of respect for the client's culture. A lack of the business facilities we're used to in developed markets, for example, doesn't mean that these people aren't both intelligent and hardworking."

Personal relationships can also be of crucial importance in developing markets. Clients expect to get to know you, and it's equally important that you get to know your clients. The personal relationship gives them a sense of who they're dealing with and helps build mutual trust and credibility.

You also have to clearly understand your client's needs and expectations, along with the scope of the work to be done. The client must be just as clear about what you understand their expectations to be. In other words, communicate.

Down in the marketplace

Another contributor to successful project delivery is having high-quality personnel, says Edward Kteily, Dessau-Soprin's Vice-President of Construction. "You need a very strong project manager with experience in developing countries. The manager has to know both the marketplace and the culture of the host country – the local contractors and suppliers and how business is done."

But understanding the local market isn't confined to understanding its basic business practices. It's just as important for company personnel to understand its key legal and fiscal aspects. For example, you have to know the local labour codes, because you often have to pay severance if it's necessary to lay people off, and you'll need to allow for such expenses.

Comfortable partnerships

Good local partners can be priceless assets. "When Dessau-Soprin is doing a project," says Kteily, "especially if it's at our own risk, we need local strategic partners. These companies have to be viable financially and technically, and because we're at risk they must be able to bond the work they're doing for us. So we look for companies with good track records in the country, who have delivered for our client in the past and who have adequate references. We're always trying to identify strategic partners so that we can pre-qualify them. That way, when we need their services, we already know enough about them to be comfortable."

Questions of stability

Many developing markets are beset by political uncertainties and vulnerable economies, and these stability issues can affect Canadian companies working in the country. A change in priorities resulting from a change in government, for example, can affect a project's future. A company must be sensitive to such shifts when dealing with the different stakeholders in a project.

Developing markets may also lack the resources needed to create well-developed public institutions such as regulating bodies, a professional civil service and a strong judicial system. Institutional weakness and lack of independence from political influence can have drastic effects, both on state-sponsored projects and on private-sector projects in heavily regulated industries such as energy or telecom, and you may find yourself dealing with them.

Another aspect common to developing markets, unfortunately, is a significant level of poverty. People are understandably impatient for change, so their expectations of a newly elected government are often very high. To meet such expectations, a new regime may bring in policies whose side-effects dramatically alter the economics of your project – a sudden devaluation of the local currency might be one example.

Financial assurances

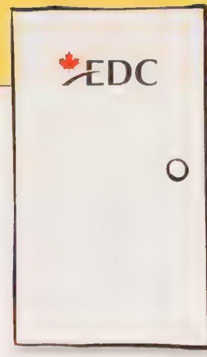
Financial risks can often be higher for companies working in developing markets, and prudence is needed in managing them. One way to deal with these risks is to ensure that all credit and insurance instruments are in place before delivery begins, so the company can be confident of getting paid.

"That's an assurance that can open the door to a lot of prospects," says Murray. "So we strongly urge that a company consult with EDC or other credit agencies to get the necessary instruments. For example, insist that the client arrange letters of credit for payment to the exporter and have EDC insure the deal. It's worth every dollar and allows you to sleep at night."

The vital ingredients

Assuming quality personnel, a good relationship between the Canadian company and the client, and a solid financial foundation, what else contributes to a successful project rollout? Three things are crucial. First, be clear about the scope of work. Second, understand the budget and the conditions dictating it. Third, know exactly what standard of quality can be delivered and make sure that you and your client agree on it. Finally, you need to review these three aspects regularly, so you'll know what the deliverables are at any given time.

Respect for people, understanding of the work, and fiscal prudence in your commitments – they're vital ingredients of success in any market, and you'll find the developing world to be no exception. ■



Delivering on Your Commitments: Consumer Goods & Agri-Food Products

BY SANDI AND DENNIS JONES

If you're exporting consumer goods or agri-food products into a developing market, the delivery process begins well before you load your containers. In fact, because delivery involves so many intricate financial, legal and logistical ramifications, you should understand clearly what's involved in it even before you negotiate your first contract.

The Canadian embassy in your developing market is among the best places to find the information you need. Its trade officials can tell you the do's and don'ts of the local market, particularly the problems involved in moving your products into the country. Just to begin with, you'll need to know what certifications you'll need to ship your product into the country.

Certifying your goods

As with most export sales, you're responsible for certifying that your product meets the standards of the developing market. For cultural and other reasons, these standards may differ from those used by more familiar export markets. For example, health certificates are mandatory before Canadian poultry can be imported into any country. But in the Middle East, you usually must also provide halal certification, which guarantees that the poultry was slaughtered in an approved way as prescribed by Muslim law.

Thorough knowledge of local standards is equally important for consumer-goods exporters. Never assume that a Canadian-certified product, such as the fire-retardant fabric of a chair, will satisfy the requirements of your new market. You need to be very clear on what

"That's why you need an agent on the ground, even if the buyer is the importer of record. That's rule number one when going into a developing market: have an agent there whom you can trust."

— Donna Choquette
Director of Consumer Goods, EDC

the standards are, and here again the Canadian embassies will often be able to help you.

Once your product is certified, be sure you prepare the supporting documentation very carefully. Incorrect documentation almost always leads to trouble at the port of entry.

Labelling and Marking

Labelling compliance is also crucial, since apparently insignificant errors can stop a shipment in its tracks. One such mistake is to use the standard Canadian date format when the importing country requires something different.

Labelling problems crop up regularly, according to EDC Director of Consumer Goods, Donna Choquette. "Local requirements differ," she observes, "so if you're exploring a new market, you should take advantage of the labelling seminars offered by various industry associations, often in partnership with government agencies (both federal and provincial) here in Canada."

Team Canada Inc and the Canadian International Trade Centres are other sources of labelling information. Obtaining exact labelling specifications from your buyer is also a good idea, as is getting the labels approved as part of the contract.

Establishing the importer of record

Your buyer may ask you to assume contractual responsibility for importing the goods into the country. "But," says Karl Miville-de Chêne, President of the export consulting firm Contacts-Monde, "it's very unwise to take your responsibility any further than the customer's port of entry. If you do, you may find yourself dealing with his importing problems. In fact, avoid dealing with customs and border officials at all, if you can manage it."

To place the customs responsibility with your buyer, ensure that they are legally the importer of record – that is that they are responsible for customs clearance and any tax and tariff payments. And if you can make the buyer responsible for the goods from the time they leave Canada, so much the better. And never agree to handle transportation within the country itself.

Ensuring payment

Exporting to developing markets carries increased financial risks. If possible, negotiate payment so that you receive the money before your product leaves Canada. Alternatively, require payment when the shipment reaches the port of entry in your buyer's country, not when it reaches the buyer's warehouse.

"Also," advises Miville-de Chêne, "be sure you get paid in a way that's acceptable to your Canadian bank. If that's not possible, you might use a foreign bank that will take risks Canadian banks won't. Some European banks, for example, are very strong in Asia, Latin America and Africa."

Dealing with customs documentation

In many developing markets, merely obtaining the basic information needed to prepare customs documents can be difficult. "There are problems with transparency," notes Richard Seguin, Deputy Director of the Ontario Regional Office of Agriculture Canada. "In Iran, for example, the rules for imports aren't always available to exporters – and even when they are, they're written in Farsi. You can't assume that other markets are as transparent as those in North America, so you should get as much information as you can, in advance, about the customs documentation you'll need."

Where free trade agreements exist with a developing market – Canada has them with Mexico, Costa Rica and Chile – you'll have some customs advantages when shipping goods into the country. However, enormous challenges still remain despite these agreements. In Mexico, even with NAFTA, the documentation requirements are rigorous and strongly enforced, and moving goods into the country can be extremely difficult.

Using agents

Many developing markets, according to Choquette, share Mexico's strict administrative culture with respect to imports. "That's why you need an agent on the ground," she says, "even if the buyer is the importer of record. That's rule number one when going into a developing market: have an agent there whom you can trust."

This is true even if your buyer is taking over the goods at the port of entry and is handling customs clearance, tariffs and transportation. If all goes smoothly, of course, you won't miss having an agent. But if your buyer opens the container, decides that the goods are unacceptable and refuses to pay for them, it's a different story. This is when you need an agent: not to clear customs, but to sort out problems raised by the buyer, to facilitate transfer of title and to pursue payment if necessary. And this just scratches the surface; some markets are very profitable, but so difficult that no Canadian exporter should venture into them without an agent.

Still, through a combination of prudence and entrepreneurial spirit, Canadian exporters can find rich opportunities in developing markets. Our companies have a worldwide reputation for honesty and excellence, and that means a great deal in any language. ■

Saskcan Pulse Trading: Seeds of Success

BY **SANDI** AND **DENNIS JONES**

Less than a decade ago, Canada's production and export of lentils barely registered in the world market. But thanks to companies like Saskcan Pulse Trading, that's all changed – Canada has vaulted from the minor leagues into the first rank. And it happened almost overnight.

Photo: Courtesy of Saskcan Pulse Trading

Lentils, anyone?

Lentils, along with peas, beans and chickpeas, are pulse crops. While lentils aren't part of most Canadians' daily diet, their high levels of fibre, protein and complex carbohydrates makes them a staple in developing markets such as Egypt, India, Pakistan and Bangladesh. The huge populations involved mean that the demand for the product is enormous.

Canadian crop growers began to respond seriously to this demand in the late 1990s. By 2000, the volume of Canadian lentil exports hit 914,000 tons, with more than 90 per cent of it from Saskatchewan. This made Canada the world's largest lentil exporter, with approximately 36 per cent of the market.

However, no Canadian company was doing the final processing that would add value by turning the raw product into a finished food. It was an opportunity waiting to be realized.

Saskcan Pulse Trading takes root

Enter a Turkish firm, the Arbel Pulse and Grain Company. Arbel was already Canada's biggest customer for lentils, which they imported into Turkey for processing and re-export. But the meteoric growth of Canadian lentil production convinced Arbel that it made more sense to do the processing in Canada and export the finished product from there.

The result was the founding of Saskcan Pulse Trading Inc., a partnership that includes Arbel, the Saskatchewan-based Crown Ventures Fund and the Saskatchewan Government Growth Fund.

"We began in July 2001," says Murad Al-Katib, Saskcan's President, "with the idea of building a company that would bring Saskatchewan's pulse crops to the world market, by exporting them in a finished state. We built a plant in Regina two years ago, and Saskcan is now exporting to 33 countries – 90 per cent of our business is abroad, with our chief markets being Bangladesh, Pakistan, Turkey, the United Arab Emirates and Germany. We're now among the major Canadian players in the export of all types of lentils."

By 2000, the volume of Canadian lentil exports hit 914,000 tons, with more than 90 per cent of it from Saskatchewan.

A fertile partnership

According to Al-Katib, the venture has grown so dramatically because of the marketing ability of the partnership. Arbel is new to Canada but has 56 years of processing and marketing experience elsewhere in the world. By linking the production, processing and marketing sides of the industry, the Saskcan alliance has created an environment for success.

That environment includes a voracious demand for its product. Saskcan's ability to satisfy this demand, says Al-Katib, is enhanced by several factors. One is that Canada is the lowest-cost producer of lentils in the world. This allows the company to compete with exporters in other countries, even though Saskcan is much farther from its chief markets than they are.

Another ingredient of success is the development of new seed varieties by the government of Saskatchewan, the Canadian federal government and Saskatchewan Pulse Growers. Access to these new varieties allows Saskcan to adapt very quickly to changing customer demands, which makes the company extremely competitive. Adding to this competitiveness is the high reputation of Canadian agri-food products around the world. "There's a perception of quality that goes along with the name of Canada," Al-Katib says, "and that's a huge advantage for our marketing. To back it up, we make sure we provide top-tier quality and manage our logistics so that we can deliver as promised to our customers."

Saskcan's close relationship with EDC has also nurtured its swift growth. EDC helped the company secure start-up financing; with that in place, the next step was an EDC risk-management program for the company's open-account receivables and letters of credit. Within a year, Saskcan was doing so well that it made the move from EDC's Emerging Exporters Team – surpassing $1 million in annual export sales – to the Consumer Goods Team. The company and EDC talk to each other almost daily, says Al-Katib.

Weeding out risks

To deliver on its commitments, Saskcan has to cope with the risks and problems inherent in its market sector. "We're a start-up company," observes Al-Katib, "so we have to manage our risks very carefully. One example is the long transit times involved in reaching our markets – no matter what the distance, we have to deliver under our contracts' terms and conditions before we can get paid. Managing this kind of risk is all about dealing with freight, documentation and logistics. In fact, you could say that we don't make money selling product – we make money executing our contracts."

Exporting to markets whose cultures are different from Canada's poses another set of challenges. To deal with these, Saskcan often uses a local partner who understands that particular market's culture, language and regulatory practices. This one-point-of-entry approach, where the local partner works closely with Saskcan's customer, has served the company well.

Blossoming relationships

This doesn't mean, however, that Saskcan keeps its buyers at arm's length – quite the opposite.

"Exporting is a relationship game," observes Al-Katib. "In a developing market, the seller-buyer relationship is extremely important. Our buyers' countries often don't have a well-developed business infrastructure and provide few risk-management tools, so our customers have to feel that they can trust us. As a result, Saskcan's guiding principle is that our most valuable asset is our good name. If we lose that, no one will trust us or do business with us. But if we make our name synonymous with quality, they will."

And they have. Saskcan has reached 33 new markets in the past 18 months and has opened a second processing plant west of Regina.

Bumper harvests ahead

Al-Katib sees the agri-food sector growing into a billion-dollar industry for Saskatchewan. "As Canada continues to develop, we're going to take over as a supply leader in the world," he says.

"We at Saskcan are proud to be a part of that."

And for other firms contemplating a leap into agri-food exporting, he has some simple, straightforward advice. "Do your homework, know your customers, manage your risks and use the resources around you. And always remember, your name is everything!"

COMPANY PROFILE

Company: Saskcan Pulse Trading Inc.
Business: Processing of pulse crops
Location: Regina, Saskatchewan
Established: 2001
Employees: 45
Exports: 85-90%
Export Markets: 33 markets including Bangladesh, Sri Lanka, India, Egypt and the United Arab Emirates
Contact: www.saskcan.com

Brazil: Back in Business

BY MIKE TRICKEY

Photo: © Jeremy Woodhouse/Masterfile

After four years of stormy weather centred around a nasty trade dispute over aircraft subsidies, the clouds have finally lifted on Canada's relationship with Brazil and optimistic analysts are now forecasting a future potentially as bright as a sunny day at Copacabana Beach.

Brazil has undergone a dramatic economic and political transformation in the past two decades, opening its economy to the rest of the world and re-introducing democracy after 21 years of military rule that ended in 1985. The process has not been smooth, with one president impeached on corruption charges and the economy devastated by a decade of hyperinflation that reduced the value of personal savings by 2,000 per cent. However, the election in October 2002 of Luiz Inacio Lula da Silva, known to all Brazilians simply as "Lula," and the smooth transition of power to the first democratically elected left-leaning government in 40 years, has been a signal to the world that Brazil is back on track and – despite lingering social problems and ongoing political scandal – ready for business.

More than 800 Canadian companies do business with Brazil with about 60 having full-time operations there. Several of them have high profiles in Brazil, including Brascan, which has been in the country for 150 years. Alcan has become the country's leading producer of aluminum and the pre-eminent company in Brazil's world-leading aluminum recycling program since establishing operations there in 1966. While Molson Breweries has more recently gained stature with its purchase of Brazil's leading brewery and its internationally known Bavaria brand. Other leading Canadian investors include the pharmaceutical company Apotex and the petroleum exploration firms Nexen and Encana.

Bilateral trade between the two countries was worth $2.876 billion in 2003, with Canadian direct investment in Brazil approaching $6 billion, making it the 16th largest recipient of Canadian foreign direct investment (FDI).

"There are huge opportunities for Canadian companies in Brazil," says Fernanda de A Custodio, EDC Regional Manager in Rio de Janeiro. "Canada has some particular advantages compared to other countries because of the similarity in industrial profiles of the two countries, with our strengths in the energy, mining, forestry and telecom sectors, as well as similarities in our natural resources' sectors. These similarities could lead to a competitive relationship between the two countries, but they also provide good opportunities for partnership."

The left-leaning Lula campaigned against the proposed continental-wide Free Trade Area of the Americas, but has moderated his rhetoric recently, recognizing that gaining access to the rich North American markets he covets for Brazil's agricultural products – primarily coffee, sugar, chicken and meat products – requires a reduction in subsidies and other trade barriers. His government is still resisting foreign corporations bombarding Brazil with their exports and is instead encouraging foreign firms to set up locally or to establish joint ventures with local partners. Tax breaks and other incentives are being provided for foreign firms that set up operations in Brazil, especially in the pharmaceutical, software and intellectual technology sectors where Lula is attempting to establish a strong domestic presence.

"These are areas that Canada does particularly well in and it is creating a huge opportunity for Canadian companies," says Custodio.

Former Minister of State (New and Emerging Markets) Gar Knutson says the federal government is making Brazil a priority and one of the first tasks is to raise Canada's profile within the Brazilian business community.

Bilateral trade between the two countries was worth $2.876 billion in 2003, with Canadian direct investment in Brazil approaching $6 billion, making it the 16th largest recipient of Canadian foreign direct investment.

"We're trying to focus on some key sectors: oil and gas; the production and transmission of hydroelectric power; infrastructure projects such as highways, airports and rapid transit; environmental technologies; and the service sector, such as architectural services and insurance and banking services."

As well, Knutson says there must be an emphasis on getting past the lingering negative attitudes caused by the Bombardier/Embraer aircraft subsidy dispute and the Brazilian position on Canadian beef during the mad cow crisis.

"Our immediate challenge is to say to them that while there will be challenges in the trade relationship, just as there are with the United States, we want the relationship to be solid and fruitful and not to be distracted by temporary issues."

Key to that will be Canadian companies' willingness to establish long-term relationships in Brazil and to be flexible enough to do business with a samba beat.

"This is not a country where you can come in and do your business and leave," warns Custodio. "You have to come in and spend some time first learning the system and developing relationships. You really have to be flexible and be prepared for changes in the rules of the game. The corruption issues have been cleaned up a lot in the past decade, but the bureaucracy is still an issue. In fact, it can be a nightmare, but if you are prepared for that, you forge your relationships well, and are determined to stay for the long term, there are enormous opportunities for success."

ECONOMIC SNAPSHOT

Population (2001): 177.5 million

Nominal GDP (2002): US$508 billion

Total Trade / GDP: 30.1%

Currency: Brazilian Real

Merchandise Imports from Canada (2003): US$629 million

Main Sources of Foreign Exchange (excl. FDI): Manufactured Goods

Largest Merchandise Trading Partner: United States (24%), Argentina (12%)

Main Imports: Machinery (28%), Chemicals (18%)

Risks to Outlook

↑ • Faster than expected return of FDI and continued strength in the current account

↓ • Tepid return to growth of domestic demand

Prepared by Stuart Bergman, EDC Economist
www.edc.ca/economics
June 2004

Photo: Courtesy of Thermo Design Engineering Ltd.

Shipping Box

BY **JANE DALY**

While many companies typically export items that fit in a box, Thermo Design Engineering Ltd. can export an entire processing plant. Individual plant components can be as big as a railway car, and together, take up an area the size of a football field.

Located in Edmonton, Thermo Design is a leading engineering company specializing in petroleum and petrochemical processing systems. Its plant technologies strip natural gas, removing impurities and water and condensing heavier gas to make it lighter and cleaner for use in items such as vehicles and barbecues. The company can take on one part of a project, or offer customized services from end-to-end, including project management, feasibility studies, process design engineering, equipment design, procurement, equipment fabrication, site construction, supervision, commissioning, and start-up and personnel training.

One of the most interesting things about Thermo Design, however, is its ability to offer "modular technology" which means all of the major equipment and associated systems of the plant can be configured and assembled onto prefabricated structural steel skids in a controlled environment in Canada. The skids, sized to meet the local transportation restrictions and requirements of the importing country, are then shipped to the job site, where the plant can be reassembled in a matter of weeks.

"The concept of modular technology has been around since about 1975 in North America, but has not typically been practiced in foreign countries," says Jim Montgomery, President and one of the company's founders.

The modular concept offers many advantages, especially for remote locations. "Natural gas is often found in locations where there is no infrastructure, such as out in the desert," Montgomery says. "Prefabricating the components here, where electricity, utilities and our staff's expertise are readily available, can offer substantial cost savings compared to traditional on-site construction methods."

Another advantage is that the plant can be constructed in a controlled environment. "The structures are protected from the elements and inspections are done by people at every step, leading to better quality, timing and precision."

And precision is important, especially when trying to land projects from organizations such as Petrobras, Brazil's government-owned oil and gas corporation, for which Thermo Design Engineering recently completed a processing plant. "Petrobras is known for being very exacting," says Montgomery. "When dealing with them, exporters need to ensure that they tighten up their practices and document everything."

Timing is an important factor for engineering companies to consider. "In Canada, you get a project and the work starts right away," he says. "But in other countries, it can be a couple of years before a project goes ahead. You need to factor that into the business cycle. The same strategy is also needed to deal with the highs and lows of the resource industry – if one market is slow, pitch business in that country while doing work in another."

In fact, it was the rocky highs and lows experienced by Alberta's oilfields during the 1980s that prompted the founders of Thermo Design to explore other markets. "We first went to China, followed by Russia in 1992. Since then we've expanded in all directions," says Montgomery.

Since 1996, the company has been using EDC for a variety of bonding and short-term insurance products, as well as "moral support," according to Montgomery. "It takes a lot of money to build a plant, and banks will not give you that much credit on your own," he says. "With EDC, you can get the capital to start building."

COMPANY PROFILE

Company: Thermo Design Engineering Ltd.
Business: Petroleum and petrochemical processing systems
Location: Edmonton, Alberta
Established: 1979
Employees: 250
Annual Sales: $50 million
Exports: 90%
Export Markets: Mexico, Brazil, Middle East, Central Asia, Poland, Russia, China
Contact: www.thermodesign.com

Sunwell:

Exports on Ice

BY **PETER BRAKE**

How does a Canadian company create a penguin environment at San Diego's SeaWorld, ice thermal storage systems for office towers in Japan and seafood preservation systems for Chile's leading fish producers? Because when it comes to ice, nobody does it better than Sunwell Technologies Inc.

In the case of SeaWorld, the company's innovative refrigerant technology was able to mimic the Antarctic-like conditions and salt-free ice which allows these penguins to frolic safely under the sunny California sky.

Sunwell founder Vladimir Goldstein developed a passion for ice-making during his engineering studies in Russia. He continued to experiment with new techniques after immigrating to Orangeville, Ontario. Eventually he developed a method of forming ice inside a liquid medium rather than on a cold surface, the traditional method used for more than a century.

"The result was slurry ice composed of ice crystals smaller than those produced by conventional systems and possessing highly specialized properties," says Goldstein.

And those "specialized properties" means that Sunwell's Deepchill™ Variable-State ice is environmentally friendly with no contaminants. It also offers an unprecedented cooling rate and can be quickly produced in a variety of states such as a pumpable liquid ice, a slurry ice paste or as free-flowing solid crystals and has been recognized by the International Institute of Refrigeration as a new refrigerant. Furthermore, its production and application requires less energy and less labour than conventional ice-making systems.

Sunwell was founded in 1978 to develop commercial applications such as food preservation and processing, refrigerated transportation, ice thermal storage and heating, ventilation and air-conditioning (HVAC) systems for buildings, not to mention helping create polar habitats for zoos.

"Slurry Ice technology is one of the fastest growing areas in refrigeration and food preservation with leading research institutions in Europe, Japan and North America," says Dr. Ming-Jian Wang, Sunwell's Technical Sales Manager. "Sunwell holds patents in more than 20 countries and is recognized and sought after as an innovative leader in its field."

Ten years ago when Chile's rapidly growing seafood industry was looking to reduce waste and improve product quality, they turned to Sunwell. Slurry ice suspends the seafood catch in a Deepchill™ slurry solution, surrounding the product's surface to allow for faster and more comprehensive cooling without the tissue damage caused by the hard, sharp edges of conventional ice. Sunwell then developed smaller, modular systems to allow the catch on commercial fishing vessels to be transported without the wastage and quality reduction previously typical of the sector.

A Japanese affiliate, Sunwell Japan Corporation, was established to apply Sunwell's expertise to ice thermal storage systems for buildings. With space at a premium, their technology is a perfect fit, taking up less space than competing HVAC systems. The superior cooling retention and ability of the system to power up during off-peak demand periods is also attractive to the energy-conscious country.

Sunwell was pleased to discover that EDC's financial products could even be used in more risky venues. "Since we first contacted Chris Despond in EDC's Toronto office three years ago, EDC has put a lot of effort and energy into helping us move into new markets," says Simon Goldstein, Vice-President and Chief Counsel for Sunwell. EDC has provided Accounts Receivable Insurance and export financing for Sunwell's further expansion into Chile and Venezuela.

For Sunwell, winning hot export opportunities couldn't be cooler. ■

COMPANY PROFILE

Company: Sunwell Technologies Inc.
Business: Food cooling and preservation; ice thermal storage systems
Location: Woodbridge, Ontario
Established: 1978
Employees: 30
Exports: 90%
Export Markets: 25 countries worldwide including the United States, Chile, Japan and China
Contact: www.sunwell.com

Harvesting Chile's Potential

BY PETER BRAKE

Hugging the Pacific coastline of South America, Chile stretches more than 4,000 kilometres North to South with a desert-like north, a temperate central valley and a sparsely populated southern zone of lakes subject to wintry Antarctic influence. A country of 15 million people, Chile is resource rich, possessing almost one-third of known world copper deposits, abundant ocean fish stocks, and luxuriant valleys suitable for varied agriculture. This includes spectacular vineyards producing world famous wines.

"Chile is the success story of South America," says Claudio Escobar, EDC Regional Director for Brazil and Southern Cone. "The county's early progress in liberalizing its economy and embracing an export-oriented market focus has allowed for impressive growth and enriched trade with countries like Canada."

Canada has been an integral factor in that development. Throughout much of the 1990s Canadians were ranked as the first- or second-largest foreign investor in Chile. So it's not surprising that today, five of the top 20 Chilean exporters are mining companies owned by Canadian interests. "In part, the closeness of Canada and Chile stems from the things we have in common such as the challenges of an expansive and rugged geography," observes Marvin Hough, EDC Regional Vice-President, International Markets, Latin America. "As well, we are both familiar with the problems and benefits of sharing a border with a larger, more influential economy and have embraced foreign trade and export diversification as keys to our respective long-term growth and prosperity."

The Canada-Chile Free Trade Agreement signed in 1997 encouraged a rapid growth in trade with overall trade tripling over the past 10 years. In 2003, Canada exported more than

$319 million of goods and services to Chile, down from 2001, but a rebound from 2002 when the worldwide recession limited demand for goods and services. Exports included mining and manufacturing equipment, agricultural products, pulp and paper, and electrical and oil and gas extraction equipment. Competitive advantages can be quickly eroded, however, and subsequent agreements between Chile and other countries including the United States and the European Union have effectively levelled the playing field.

"Despite the advantage of being well known in Chile, Canada's efforts to broaden the scope of exports to Chile requires innovative and sophisticated marketing that recognizes the advances that Chileans have made in competing on the world stage," says Escobar. "Chileans look for complete solutions that address local needs, provide after sales servicing and allow for a technology transfer to expand Chile's own export capability."

Chile's unusual geography makes it challenging to cover the entire country from a single locale let alone a foreign country. Chilean businesses have voiced concerns that some imported products do not suit their needs because importers lack information about the broader Chilean market. Canadian exporters need to become better informed about the intricacies and variety of Chile's market, Escobar notes. "It's critical to thoroughly research the Chilean market and provide tailored solutions. Relationships are key and partnering with local firms can help immensely."

Chileans are increasingly concerned about environmental issues and the country has set a goal of requiring all industrial companies to treat waste water by September 2006. Canada's environmental expertise can often be leveraged off sales in other sectors, says Hough. "The heavy involvement of Canadian business in the Chilean mining sector is a key entry point for us to demonstrate our advanced environmental technology and remediation techniques. And while Chilean environmental firms are interested in working with foreigners to obtain expertise, they are looking for long-term commitments including local offices." Opportunities include: water circulation pumps and filters, commercial water tanks, waste water treatment technologies, environmentally friendly paints and cleaning agents for cages and tanks, energy efficient generators and/or fuel cells and consulting services for environmental impact assessments, planning and quality control systems.

Throughout much of the 1990s Canadians were ranked as the first- or second-largest foreign investor in Chile.

Escobar is also excited by Chile's position as the trans-ocean point of shipment for other Latin American markets. "The transportation sector in Chile is a good place for Canadians to investigate. The country is a growing market for cargo handling, storage and distribution operations as well as for creative and efficient logistics systems and infrastructure upgrades." While the Chilean highway system underwent repairs recently, there is already evidence of degradation and cracking. Canadian construction expertise in durable, all-season, all-terrain roads could be a key selling point." The county's rail network, antiquated and inefficient outside of urban areas, has been partially supplemented by maritime transportation and coastal sailing, but there are discussions about revitalizing this crucial transportation link. "Exporters offering solutions that can deal with Chile's variable terrain and improve the existing modes of transport have the advantage," says Escobar.

Other opportunities exist in the energy and food sectors. Chile's reliance on imports of oil and natural gas make it vulnerable to foreign supply and price fluctuations. In tandem with an increase in disposable income, Chile's growing middle class is also looking for more culinary choices that suit their busy and more affluent lifestyles. Another potential area for Canadian expertise is to upgrade and improve power transmission efficiencies and to generate capacity to supply the rapidly growing economy of Chile's southern region.

"Exporters looking to market their products and services in Chile should prepare a strategy that builds upon Chile's accomplishments and provides world-class solutions that further enhance the country's ability to globally compete," says Hough. Escobar agrees: "Chileans are very proud of their country's political stability, economic success and well-deserved reputation for security and safety. Canadian quality and expertise is well-known in Chile. Closing the deal requires knowing the market and tailoring the products to suit." ■

ECONOMIC SNAPSHOT

Population (2003): 15.2 million

Nominal GDP (2003): US$70.8 billion

Total Trade / GDP: 55%

Currency: Chilean Peso

Merchandise Imports from Canada (2003): US$227.9 million

Main Sources of Foreign Exchange (excl. FDI): Copper

Largest Merchandise Trading Partner: United States, Japan

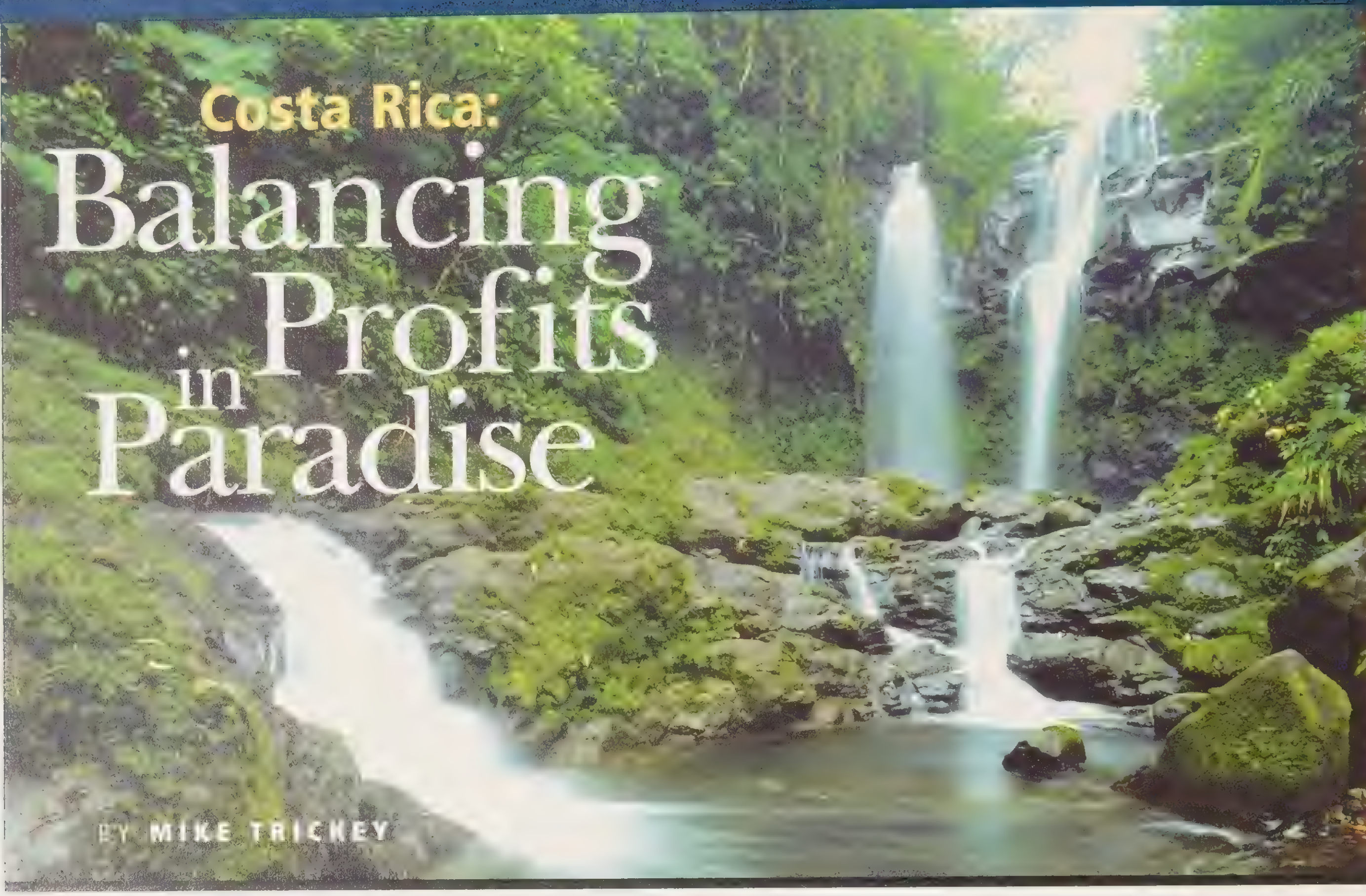
Main Imports: Intermediate Goods, Capital Goods

Risks to Outlook

↑ • Sustained high copper prices

↓ • Further appreciation of the peso and regional instability

Prepared by Stuart Bergman, EDC Economist
www.edc.ca/economics
June 2004



Costa Rica: Balancing Profits in Paradise

BY MIKE TRICKEY

Photo: © Stuart Westmorland/Getty Images

Looking for an idyllic tropical paradise that has investment and business potential as spectacular as the stunning views of the mountains covered in rain forest that meet the pounding surf of the Pacific Ocean?

Costa Rica, the self-described "Switzerland of Central America," just could be the answer.

Traditionally the most politically stable country in Central America with a long-standing democracy (and no military), Costa Rica has become even more attractive to the Canadian business community since the implementation of a free trade agreement in November 2002 that is already providing significant benefits. Two-way trade between Canada and Costa Rica jumped 12 per cent, with Costa Rican exports to Canada increasing 24 per cent, in the first year of the trade pact's mandate.

"It's a real growing opportunity," says Marvin Hough, EDC Regional Vice-President, International Markets, Latin America. "It's a market that we are encouraging companies to get into because not only is it an attractive investment climate in general, but it also could be a platform for sales throughout the entire region."

Gar Knutson, Former Minister of State (New and Emerging Markets), took 39 representatives from 26 different Canadian corporations to Costa Rica in March as part of the largest ever Canadian business trade mission to the region.

"With the new trade agreement, we're hoping to duplicate in Costa Rica over the next 10 years what has happened in Mexico over the past decade," says Knutson, referring to the 15 per cent annual increase in Canadian exports to Mexico and the tripling of direct Canadian investment in Mexico since the North American Free Trade Agreement was implemented in 1994. "I think that's quite realistic."

Carlos Miranda, Costa Rica's Ambassador to Canada, agrees, adding the free trade deal has not only reduced duties but has also simplified customs formalities to make it easier to transport goods between the two countries.

"The first priority for Costa Rica after signing the free trade agreement with Canada was to open a commercial office here to promote and assist Canadian importers to access Costa Rican products and vice versa," he says. A Costa Rican commercial mission visited more than 100 Canadian importers in Toronto and Montreal last fall and a similar mission took place in June. As well, Costa Rica is organizing an event for Canadian businesses to meet with counterparts in San José in November.

Ambassador Miranda says Costa Rica is a politically stable democracy with a welcoming attitude toward foreign partners.

"There are no limitations on foreign control of corporations and ownership of property, and the business environment and legal framework are open to

foreign investment," he says. "We have the lowest risk rating in Latin America, certain business ventures such as forestry and tourism enjoy special tax benefits, and we have a well-educated workforce."

People-to-people ties between the countries have also been growing rapidly, with Air Canada's direct flights between Toronto and San José making Canada Costa Rica's second largest source of tourists. Canadian visitors can feel perfectly at home in Costa Rica, with several Canadian-owned hotels in operation, including the luxurious Four Seasons Resort Costa Rica at Peninsula Papagayo and the 12 ScotiaBank branches around the country making up part of the US$250 million in direct Canadian investment in the country.

Popular Canadian products are also familiar to Costa Rican shoppers, with Dare and Viau-McCormick cookies, ADM Milling's Five Roses flour and Cavendish, Maple Leaf and McCain frozen products all staples in the country's grocery stores.

As well, SNC-Lavalin is a major participant in one of Costa Rica's largest infrastructure projects, investing US$150 million over the next three years in the construction of a 76.8-kilometre toll road between San José and the important Pacific Port of Caldera.

However, as in all developing markets, risk comes hand in hand with opportunities, adds Hough. Two other major Canadian projects, for example, have recently run into snags with a new government moratorium on open-pit gold mining, putting into jeopardy the ventures of two Canadian mining companies. These companies were near the end of a long approval process when the ban on new mining operations was announced. The Canadian government is lobbying for that decision to be overturned, but the Costa Rican government has so far refused to recognize a World Bank decision in favour of an American oil exploration firm that also had its contract cancelled because of stated environmental concerns.

While unusual, the sudden decision to block the previously approved gold mining ventures is the type of action that Canadian firms must be wary of when contemplating investing in Costa Rica.

Another possible concern is growing labour unrest by unions opposed to a recently agreed, though not yet signed, free trade agreement between Costa Rica, the United States and four other Central American countries. The powerful National Electricity and Telecommunications Institution has been vocally opposed to economic liberalization and a recent strike ended with the government capitulating to its demands, leading to questions about whether the ruling minority government has the strength to push ahead with plans to permit increased foreign investment and privatization of the telecommunications sector. Rather than permit the sale of state-owned companies to foreign buyers, it is likely that the government will push for long-term leasing arrangements to attract foreign capital.

> *"With the new trade agreement, we're hoping to duplicate in Costa Rica over the next 10 years what has happened in Mexico over the past decade."*

Despite those problems, the continuing strong growth of the Costa Rican economy – 5.8 per cent in 2003 and five per cent forecast for this year – and the provisions of the free trade agreement, make the country an attractive destination for Canadian corporations of all sizes.

Ambassador Miranda says Canadian companies interested in doing business in Costa Rica should first contact the embassy in Ottawa (www.costaricaembassy.com) or the trade office in Toronto, as well as arrange for legal advice in Costa Rica.

"Purchasing property should always be done through a lawyer in Costa Rica and before buying property, ask your lawyer for a certification form from the land registry for the title search. As well, imports should include a Customs Agent who will act as your broker because imports cannot clear customs without a broker."

He also cautions that Costa Rica's deep commitment to the environment and eco-tourism means that most land and tourism developments will require approval from the Environment Ministry.

Hough says the new trade agreement has encouraged a growing number of small- and medium-sized Canadian enterprises to establish themselves in Costa Rica, taking advantage of the natural beauty and increasingly attractive opportunities in niche areas such as software development or distribution of Canadian agri-food products, and he encourages others to take a look.

"It really is a delightful place with the rain forests and the beaches. We have a lot of people mixing business and pleasure. There are some good things happening there." ■

ECONOMIC SNAPSHOT

Population (2003): 4.2 million

Nominal GDP (2003): US$17.6 million

Total Trade / GDP (2003): US$13.7 billion

Currency: Costa Rican colon – crawling peg

Merchandise Imports from Canada (2003): CAD 68.0 million

Main Sources of Foreign Exchange (exclu. FDI): Electronics Exports and Tourism

Largest Merchandise Trading Partner: United States (50%)

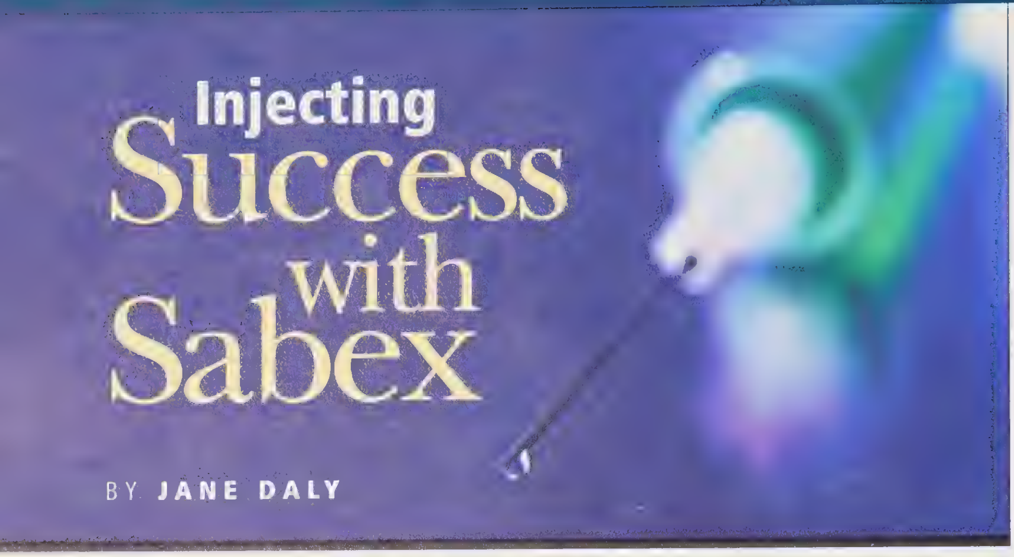
Main Import: Industrial Inputs (55%)

Risks to Outlook

↑
- Strong rise in microchip prices
- Reform of ICE Trust Fund

↓
- Lax fiscal management
- Security-driven curtailment of tourism.

Prepared by Stuart Bergman, EDC Economist
www.edc.ca/economics
June 2004



Injecting Success with Sabex

BY **JANE DALY**

In the competitive field of pharmaceuticals, Sabex Inc. is a company that prides itself on fostering innovation and development. With a well-earned reputation for quality, it has been rewarded with double-digit growth for the past several years.

Founded in 1978, Sabex is primarily a manufacturer of world-class injectable and ophthalmic (eye drops) pharmaceutical products, and has built strong partnerships with hospital and community pharmacists in Canada.

But in our fast-paced world, where health care advances seem to evolve almost from moment to moment, Sabex's success stands out as being attributable almost as much to its ethical values as to its forward-thinking innovations. In fact, it appears that their caring values are the springboard to its progress and success.

"We listen to our customers," is the refreshingly simple explanation given by Jacques Bergeron, Vice-President of Marketing for Sabex. "The founders of Sabex were pharmacists, so they quickly understood their customers' needs. Today, we maintain that philosophy and can develop products or make modifications to better suit their needs."

This strategy worked well for one of Sabex's first major advances in 1984. When a Royal Commission to study anti-pain drugs found that terminal patients were being under-dosed, the founders of Sabex noticed that the large number of morphine injections required for adequate pain relief was unpleasant for patients – and the caregivers who had to put their patients through the ordeal. To solve the problem, Sabex developed Morphine HP®, a concentrated formulation that required fewer injections, and established Sabex as a leader in the Canadian market.

Employees, too, are highly valued at Sabex, and encouraged to be innovative in an environment that fosters motivation, entrepreneurship, respect and a healthy work/life balance. "Employees are what make a company special, and behind every success is an individual," says Bergeron. "We have grown from 50 to 450 employees in only 10 years, with very low turnover."

This caring philosophy has reaped solid rewards, and in 2000, Sabex was ready to expand beyond Canada's borders. That year, Sabex entered the U.S. market when the FDA approved two of its products, an injectable multivitamin and Naloxone, used in the management and reversal of narcotic overdoses. In 2002, RoundTable Healthcare Partners, an Illinois-based firm focused in the healthcare industry, became the major shareholder of Sabex. SAB-Pharma, a wholly-owned U.S. subsidiary, was founded at the same time, bringing generic forms of injectables to the U.S. market.

With this strong foundation, Sabex began its accelerated worldwide expansion, continuing its strategy of listening closely to customer needs. "We prefer long-term relationships over short-term gain," says Bergeron who, as a result, sees dealing with developing markets as simply an extension of its regular business. "Dealing with developing markets is a part of that same normal routine, but with a different kind of growth. We're rarely involved in short-term projects."

Their business with Costa Rica, for example, where they recently increased exports from two to six products, shows that customer caring works. "Costa Ricans like Canadian products because they value quality, and Canada is one of the top three countries in the world renowned for having very high standards for pharmaceuticals," Bergeron says. He adds, however, that additional steps must be taken when dealing in foreign markets, such as translating labels into the local language.

Growth of the Canadian pharmaceutical market is about eight per cent a year, and as baby boomers age, demand is expected to grow in Canada, the United States and Europe. As Sabex grows, they expect to continue using EDC products to help. "The days when a letter of credit was all you needed are disappearing," advises Bergeron.

And as Sabex works to create a brighter tomorrow for patients around the world, Bergeron looks forward to the process. "Turning toward the world is a step in the right direction," he says with confidence. "We'll accomplish this by going one step at a time." ■

COMPANY PROFILE

Company: Sabex Inc.
Business: Manufacturer of injectable and ophthalmic (eye drops) pharmaceutical products
Location: Boucherville, Quebec
Establised: 1978
Employees: 450
Exports: 25 to 50%
Export Markets: Middle East, South Africa, Asia, South America, United States, Costa Rica
Contact: www.sabex.ca

The Hydrogen Economy: Fueling Growth

BY **PAUL STOTHART** AND **CRESSIDA BARNABE**

The future of fuel may rest in fuel cells – battery-like devices that generate electricity by combining oxygen and hydrogen – a clean, energy-efficient, reliable source of power. But can Canadian companies help lead the way to bring this innovative energy technology to the mass market?

Two long-term projects point to the steps the Government of Canada and Canadian companies are taking to build the hydrogen economy – an infrastructure to produce, store, ship, retail and use hydrogen in fuel cells. In British Columbia, the Hydrogen Highway™ will be built between Vancouver and Whistler, enabling hydrogen-powered vehicles to refuel at stations along the highway. The Hydrogen Village is a geographically defined area in Toronto where 26 community partners and technology providers – including Bell Canada, John Deere ePower Technologies and the University of Toronto at Mississauga – are working to demonstrate the possibilities of using hydrogen to generate clean, reliable energy.

"These two initiatives represent excellent opportunities for Canada to demonstrate commercial application at home, thereby enhancing our competitive position internationally," says Terry Kimmel of Fuel Cells Canada, a national industry association and facilitator of the Hydrogen Village.

As with any emerging technology, progress toward commercialization will be dictated by cost and technological considerations. In the case of hydrogen, advances are needed in such key areas as hydrogen production (currently very energy-intensive), storage and shipping.

However, commercial use in cellphones, computers and defence equipment may be seen over the next couple of years. Stationary fuel cells, generating electricity for communities and back-up purposes, could gain market share over the next five to 10 years. In the high-profile automotive area, commercial inroads may not be seen for a decade – although urban transit and niche applications such as lift trucks may see earlier adoption. Hybrid vehicles and the use of hydrogen in internal combustion engines may also act as bridges toward a hydrogen economy in the automotive area.

An estimated 100 companies are actively involved in hydrogen/fuel cell research and development in Canada, and Canada leads the way in some aspects of hydrogen and fuel cell technology: Ballard Power Systems is at the forefront in developing proton exchange membrane fuel cells; Hydrogenics is well positioned in smaller fuel cells and test stations; Fuel Cell Technologies in solid oxide fuel cell technology; and, Stuart Energy in hydrogen production.

EDC has a role to play as the hydrogen economy gradually becomes a reality and as these and other firms become oriented towards global markets. In recent years, EDC has provided equity support and Accounts Receivable Insurance for exports of electrolytic hydrogen generators. EDC has also provided bonding and financing support for remote thermo-power technology exports to a growing fuel cell company. It will be important for EDC and other Canadian stakeholders to provide strong market-development support to Canadian companies, as many competing U.S. states and national governments are looking to aggressively build a business base supplying to the hydrogen economy.

The reward to those countries and companies who successfully capture international contracts will be very large – estimates suggest global demand for fuel cell products will approach $50 billion a year by 2011. Related benefits will be seen in energy security, reduced toxic emissions, and greater environmental sustainability. ■

Political Risk Insurance:

A Strategic Move in Developing Markets

BY **TERRI-SUE BUCHANAN**

Consider this: you've opened a production facility in a developing market and the host government has agreed to supply a certain amount of megawatt power at fixed rates. But later, the government unilaterally reduces the quantity of electricity supplied and increases rates. Or a government has promised you exclusivity to supply a good or service within the country, but subsequently opens the market up to other players. Or maybe the government prevents the conversion of local currency into hard currency or blocks the transfer of hard currency outside the country. And what if your foreign subsidiary is the target of political violence, such as terrorism?

"Although traditional political risks, such as nationalization and confiscation of property, have become rare occurrences in developing markets, the actions of their governments, in the roles of protector, promoter, programmer and even producer, have created many new forms of risk for foreign companies."

— Zhan Su
Professor of Business Strategy and International Management, Laval University

For any of these examples, your company may not be willing or capable of absorbing any of the resulting losses.

Increasingly, Canadian companies are investing overseas, largely out of necessity. Exports to Canada from developing markets are on the rise and globalization is prompting more and more Canadian firms of all sizes to manufacture part of their production in these markets in order to remain competitive internationally and domestically.

"When setting up facilities in developing markets, Canadian companies can be exposed to a new range of political risks over and above the business challenges they are already familiar with at home," says Zhan Su, Professor of Business Strategy and International Management at Laval University. "These risks can include political interference with the activities of the foreign enterprise; instability of government policies aimed at foreign investors; risk of non-payment by the government; breach of contractual obligations by the government; and, the risk to physical assets due to terrorism or social unrest."

Quebec-based Cambior Inc., an international gold producer with operations, development projects and exploration activities in the Americas, understands these risks well. As a capital intensive business, Cambior exports its expertise and capital to develop mines. The primary concern, after spending this money, is the ability to export their product to the world market and operate without interference, says Vice-President and Chief Financial Officer Bryan Coates. "When you factor in the country risk, we find we need to raise the comfort level with our investors, bankers and other stakeholders based on the areas of the world where we have operations."

For example, one of their most recent projects is the Rosebel open-pit gold project in Suriname, a country that Cambior's lenders and investors were unfamiliar with. Cambior turned to EDC's Political Risk Insurance (PRI) to help alleviate some uncertainties. "This insurance added a degree of comfort for our lenders and our suppliers. We were able to cover our equity and deliver some level of assurance against political risk to other key parties as well."

PRI protects Canadian foreign direct investors of all sizes against losses incurred where the main cause is a political event covered under the terms of their policy. These political events include currency conversion or transfer problems, government actions which are tantamount to expropriation, breach of contract by a government partner and political violence.

"Traditionally, PRI has mostly been used by large companies," says Joanne Palmer, EDC Director, Political Risk Insurance. "But more and more, small- and medium-sized companies with existing facilities or those that plan to have assets in developing markets feel the need to protect their investments." As well, a PRI policy can often increase the ability of small- and medium-sized firms to raise funds since bankers gain comfort from the fact that their clients' foreign investments are insured against certain major political risks. Furthermore, depending on how the financing for an overseas project is structured, banks will, at times, purchase PRI for their own account.

"Political Risk Insurance is valuable to banks that have an international network and the capability and willingness to do business in developing markets," says Benoit Desmarais, Director of Export Finance for Société Générale Canada. Société Générale is one of the largest financial services groups in the euro-zone with a worldwide presence in private banking activities and a global leader in export finance.

"In addition to standard political risk coverage, the Non-Honouring of a Sovereign Obligation (a form of PRI protection that protects against the repayment risk where the obligor is a sovereign) is extremely valuable to our bank, particularly for transactions where local costs represent a significant portion of the project, which is more and more the case in these markets," says Desmarais. "PRI coverage is a flexible tool which allows the bank, through risk sharing, to finance up to 100 per cent of a project under one credit agreement."

"Increasingly customers, large and small, are looking at establishing a presence in developing markets," concludes Palmer, "and protecting these investments is critical. PRI is an effective tool to help mitigate some of the risks."

EDC recognizes the importance of outward Canadian foreign direct investment and the corresponding need for Canada's corporate community to increase its participation in the world's developing markets. The focus on developing markets is of special importance to EDC, which is uniquely equipped and mandated to help Canadian exporters diversify their markets. In 2003, EDC extended $51.9 billion in trade finance and risk management services to finance or insure export sales and investments made by more than 7,000 Canadian companies. Of this amount, $10.54 billion was in developing markets along with 20 per cent of all transactions.

Globalize, Specialize, Generalize

BY **STEPHEN S. POLOZ**

Cutthroat international competition means that Canadian companies cannot take their foreign customers' loyalty for granted. From manufacturers to resource producers to service providers, every exporter must run just to stand still.

Canadian companies are always looking for practical advice on how to maximize their opportunities for cross-border trade. With the world economy running on all cylinders and exchange rates nearly back to normal, the time is ripe for a three-pronged strategy.

First, globalize. This means exporting to more foreign markets to diversify the order book. But it also means finding ways to source components or sub-processes from lower-cost foreign suppliers. This can boost productivity and profitability in domestic operations. And, with a lower price point the company can boost sales both domestically and internationally, plus build in some protection from the next exchange rate fluctuation.

Second, specialize. Specialization of domestic production is one of the by-products of supply globalization. But companies that develop new products often end up making most of the product themselves, even though the new idea is based on only one or two key components. Better to focus on producing only those sub-components at which the company excels, and develop partnerships with sub-suppliers for the rest. The sub-suppliers may be either domestic or foreign in nature – all that matters is that each part of the new product benefits from the specialized abilities of the various partners.

Third, generalize. This sounds like the very opposite of "specialize" but the dimensionality is different. After a Canadian company has optimized its own global supply chain, it should look for opportunities in the supply chains of its customers. After all, the Canadian company is simply a link in the foreign buyer's global supply chain, and there may be opportunities to expand the part of the foreign buyer's supply chain being serviced by the Canadian company. For example, the Canadian sub-component may incorporate a component delivered from some other sub-supplier, and with a small investment the Canadian company might be able to capture the other sub-supplier's business, thereby saving the buyer some transportation costs.

These strategies typically mean doing more international trade for each dollar of sales. Companies that are trying to deal with the stronger Canadian dollar are discovering that the higher exchange rate has a silver lining – its purchasing power in foreign markets has gone up, making some of these globalization strategies easier to pull off.

Some evidence that such strategies work may be found in the latest statistics on Canadian corporate profits. Manufacturers in particular are working hard to deal with the 20 per cent rise in the Canadian dollar during 2003. Those most affected are the ones with relatively high Canadian content in their products and limited international pricing power. For example, profit margins have almost halved in clothing, to around four per cent, and have declined in primary metals (from 8.3 to 4.6 per cent) and fabricated metal products (7.1 to 5.6 per cent). Smaller drops in profit margins were also recorded in furniture, chemicals, wood and paper.

In contrast, companies that already source some inputs from abroad find their costs declining when the Canadian dollar rises in value. For example, companies in the electronics and computer equipment sector – which typically have a relatively high foreign content – returned to positive profitability in 2003, after making significant losses in 2002. Similarly, the electrical appliance sector also saw profitability improve.

The bottom line? From a Canadian point of view, the strategy may be summarized simply: to export more, import more. The return of the Canadian dollar to more normal levels is making that business growth strategy much more affordable. Moreover, going global in this way can give the company some natural insurance against the next bout of exchange rate volatility.

Stephen Poloz is EDC's Senior Vice-President and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

Associate Editor
Cressida Barnabe
cbarnabe@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Anne Tanguay in collaboration with Maguy Robert

Contributors
Cressida Barnabe, Peter Brake, Brenda Brown, Terri-Sue Buchanan, Jane Daly, A. Ian Gillespie, Dennis Jones, Sandi Jones, Brian Keobke, Elliot Lifson, Stephen Poloz, Veronica Prochazka, Alexandre Reeves, Paul Stothart, Michael Toope, Mike Trickey

EDC Advisory Board
Mark Bolger, Rosemarie Boyle, Donna Choquette, Marc Deschênes, Judy Dudley, Ruth Fothergill, Linda Graupner, Glen Hodgson, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon, Suzanne Morris

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

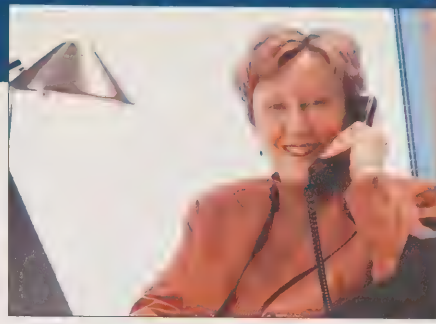
All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Printed in Canada on Canadian recycled paper.

Canada EDC

Letter from the Editor



Editor
Brenda Brown
brbrown@edc.ca

Dear Reader:

The Fall Issue, scheduled to hit your desk in early October, will feature a stellar lineup of exporter profiles including a B.C-based company whose two-way communications devices were used in the successful rescue of nine miners trapped in a Pennsylvania mine.

We will also conclude our special series on Developing Markets with an in-depth look at how you can find customers in lesser-explored markets, and how to keep them once you have them.

The three countries being profiled are Ukraine, Romania and Bulgaria. These features are filled with practical information on how to take advantage of the opportunities and how to minimize the risks when exporting to these markets.

We'll also take a look at Canada's fashion industry—and some of Canada's hottest designers—and we'll tell you about TRACE, a non-profit membership organization that provides a practical and cost-effective solution to the burden of anti-corruption compliance.

In the meantime, the *ExportWise* team wishes you and your families a safe and happy summer. We'll see you in the fall.

We're listening

We're starting to develop the lineup for the magazine in 2005 and would love to hear your ideas on what sectors, markets and issues should be covered. Send your suggestions to exportwise@edc.ca.

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

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How secure are your investment loans?

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For more information on these products visit **www.edc.ca/insurance**

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Want to turn your export sale into a cash sale?

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Does your foreign buyer need a loan?

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Small Business

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Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

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Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

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Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Companies with annual export sales of up to $1 million can call our team of small business specialists at 1-800-850-9626.

Companies with annual export sales of more than $1 million can call the nearest regional office at 1-888-332-3777.

CANADA

Export Development Canada
Head Office
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

Western

contactwest@edc.ca

Linda Niro
Regional Vice-President

Calgary
Tel.: (403) 537-9800
Fax: (403) 537-9811

Vancouver
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton
Tel.: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario

contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto
Tel.: (416) 640-7600
Fax: (416) 862-1267

London
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel.: (613) 597-8523
Fax: (613) 598-3811

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

Quebec

contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic

contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel.: (709) 772-8808
Fax: (709) 772-8693

INTERNATIONAL

Mexico & Central America

Mexico City
Doug Fortney
Regional Manager
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Regional Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

China

Beijing
Alison Nankivell
Regional Manager
Tel.: (011) 8610-6532-3536 ext. 3357
Email: anankivell@edc.ca

South East Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Regional Manager
Tel.: (011) 603-2718-3366
Email: rsimmons@edc.ca

Central Europe

Warsaw (Poland)
Dennis Goresky
Regional Manager
Tel.: (011) 4822-584-3240
Email: dgoresky@edc.ca


Are contract bonds
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Fall 2004

ExportWise

Nine Lives

CON-SPACE's rescue probe gave nine trapped miners a voice 76 metres underground

In This Issue

Photos: Martin Lipman

Gilles Ross, Acting President

EDC at 60

November 21 marks EDC's 60th anniversary, making this a fitting moment to reflect on our contribution to Canada's prosperity and to look forward to the challenges and opportunities that lie ahead.

EDC has grown steadily in financial strength and trade knowledge since it was established as the Export Credits and Insurance Corporation in 1944. We have many accomplishments to be proud of and many people to thank. *Opening Doors for Canadian Exporters for 60 years*, a special insert inside this issue of *ExportWise*, celebrates this milestone and salutes our customers. Most important, we have financed or insured some $500 billion in exports or investments relying upon the Government of Canada's share capital investment of less than $1 billion over the past 60 years. And this investment continues to grow in value.

Our ability to support Canadian business has never been stronger. In 2003, we supported $51.9 billion in international sales and investments, which translates into 3.4 per cent of Canada's GDP and is, in turn, associated with helping to sustain more than 400,000 jobs, or 2.6 per cent of national employment. We provide this support while operating in a socially responsible manner, upholding our shareholder's expectations that our decisions reflect ethical business practices, social and environmental assessments, public accountability and community investment.

International trade is essential to Canadian prosperity. The contribution of Canadian exports to our economy has nearly doubled since EDC's early years and today amounts to 40 per cent of Canada's GDP. However, the external trade and investment environment has always been fraught with risk. Recent years give poignant examples of the risks EDC was established to help Canadian companies manage: 9/11 and its aftermath; global economic turmoil; political upheavals; the rapid appreciation of the Canadian dollar; corporate malfeasance; and, the need to incorporate international trade agreements and corporate social responsibility into risk management frameworks.

Our challenge is to help Canadian companies mitigate such risks and achieve a competitive advantage. The external environment will continue to be uncertain and full of challenges. This is why we exist. We understand the complex issues inherent in exporting, which allows us to focus on supporting Canadian business, regardless of size, sector or export market.

Our ability to provide this support is aligned with our customer service philosophy, through which our employees apply their trade finance knowledge to match the unique needs of individual exporters. When we combine our abilities with those of our private sector financial partners, we make available the financial capacity Canadian exporters need to meet their trade and investment objectives.

Achievements aside, the challenges ahead are exciting and require all of our combined resourcefulness and experience. *ExportWise* has focused on developing markets in 2004, because the opportunities are real but complex, requiring knowledge and preparation to ensure success. EDC has intensified its efforts to provide support to those venturing into these markets, most notably by establishing representatives in Central and South America, Eastern Europe and Asia. We will continue these efforts in the years to come.

With a solid history to build upon, EDC is well-positioned to help Canadian exporters and investors stake out a place for Canada in the international trade environment. ■

Gilles Ross

A Salute to EDC's Outgoing President

The term of EDC's President and Chief Executive Officer, A. Ian Gillespie, came to a close in August after seven years. Under Ian's leadership, EDC doubled the number of its customers and its business volumes, strengthening our support of Canada's international trade efforts. While we await the appointment of our new President by the Government of Canada, all of us at EDC would like to take this opportunity to thank Ian for his outstanding service to Canadian exporters and investors.

ExportWise

Fall 2004

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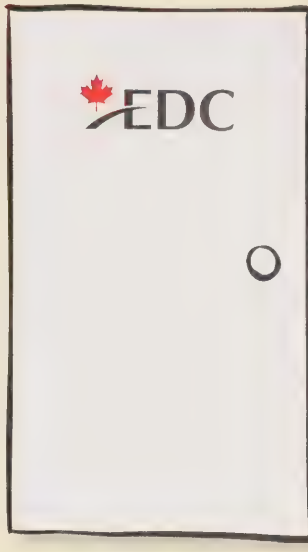

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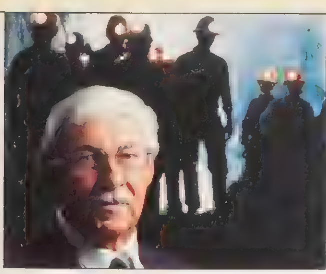

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A Stitch in Time...

BY **JULIE HARRISON**

In less than 100 days, the United States will sweep away all quota restrictions on apparel imports from developing countries. What will this massive influx of cheap imports mean for Canada?

In a city like Montreal, where the garment trade is the second biggest employer, the pressure of the looming WTO Agreement on Textiles and Clothing is palpable. The Canadian Apparel Federation estimates that some 15,000 jobs in Canada's clothing manufacturing industry have disappeared in the last 18 months.

"The old business model is dead," says Alan Milstein of RSM Richter (www.rsmrichter.com), a firm providing industry analysis. The apparel industry has traditionally been so heavily protected that it has not been forced to adapt to more competitive models. Now it doesn't have a choice."

While others are closing their doors, 30-year industry veteran Salvatore Parasuco, President of Parasuco Jeans Inc. (www.parasuco.com), can't get his designs developed and produced fast enough. Selling more than three million garments a year and expanding into a 220,000 square foot head office in Montreal, he shrugs at the implications the Agreement will have on his business.

In fact, Parasuco welcomes the change. "This archaic quota system costs me money, especially when it comes to inventory control. For instance, if I have a style of jean that I have shipped to the United States but it ends up being most popular in Canada, I can't ship the goods to Canada because they were under quota to the States."

Industry experts agree with Parasuco that the Agreement, and its last phase-in on January 1, 2005, is not all doom and gloom.

Todd Evans, Director of Economic Analysis and Forecasting with EDC, points out that like so many other areas of Canada's economy, it is not the price tag that gives Canadian companies their competitive advantage, but innovation. And this Agreement does not impact Canada's ability to innovate.

> "It is inconceivable that a market as enormous as the United States is entirely price sensitive."
>
> — **Alan Milstein**
> Senior Director, RSM Richter

Milstein points to the simple fact that Canada's share of the U.S. apparel market is a mere one per cent. "There is plenty of room for growth – with the right strategy."

Survival of the cheapest

One of the largest factors driving Canada's market-share loss in the United States is the tremendous difference between wage rates of competing export countries. This wage gap alone translates into a 26 per cent landed cost advantage for a country like China.

Despite the low wages, the industry does bring critical economic advantages to many developing countries. So much so that in some developing countries, the textile industry accounts for 90 per cent of all exports.

Mark Fried, Communications Co-ordinator with Oxfam Canada (www.oxfam.ca), notes that thousands of poor women have been able to support their families and send their children to school thanks to jobs in the clothing industry.

Evans is more frank on the matter: "The truth is that real wages for a worker in a so-called 'sweatshop' are higher than those of a worker planting rice in the ground somewhere in China."

Both Fried and Evans agree that the phasing-out of import quotas is necessary and an inevitable step in an evolving international marketplace. Providing greater access to industrialized markets can go a long way in improving the prospects for developing countries.

"How else are developing countries going to develop if they are restricted solely to the agricultural industries?" asks Evans.

Oxfam does express fear that as wealthy countries try to grapple with the more intense competition, they will neglect their responsibility to integrate respect for labour rights into their purchasing practices. "Cheap labour is a poor development strategy, both for countries and for corporations," says Fried.

Despite the complexities of the impending impacts from the Agreement, one thing is clear: Canada will not be able to compete in the areas of manufacturing or low-wage labour.

But there are those who will still try. "We can't find a domestic supplier willing to spend the time to develop fabrics for us. They are not interested because they are too busy feeding the likes of Wal-Mart. They are focusing on being price-driven, not creativity-driven," says Parasuco.

Photo: Courtesy of Parasuco Jeans Inc.

Designs on the competition

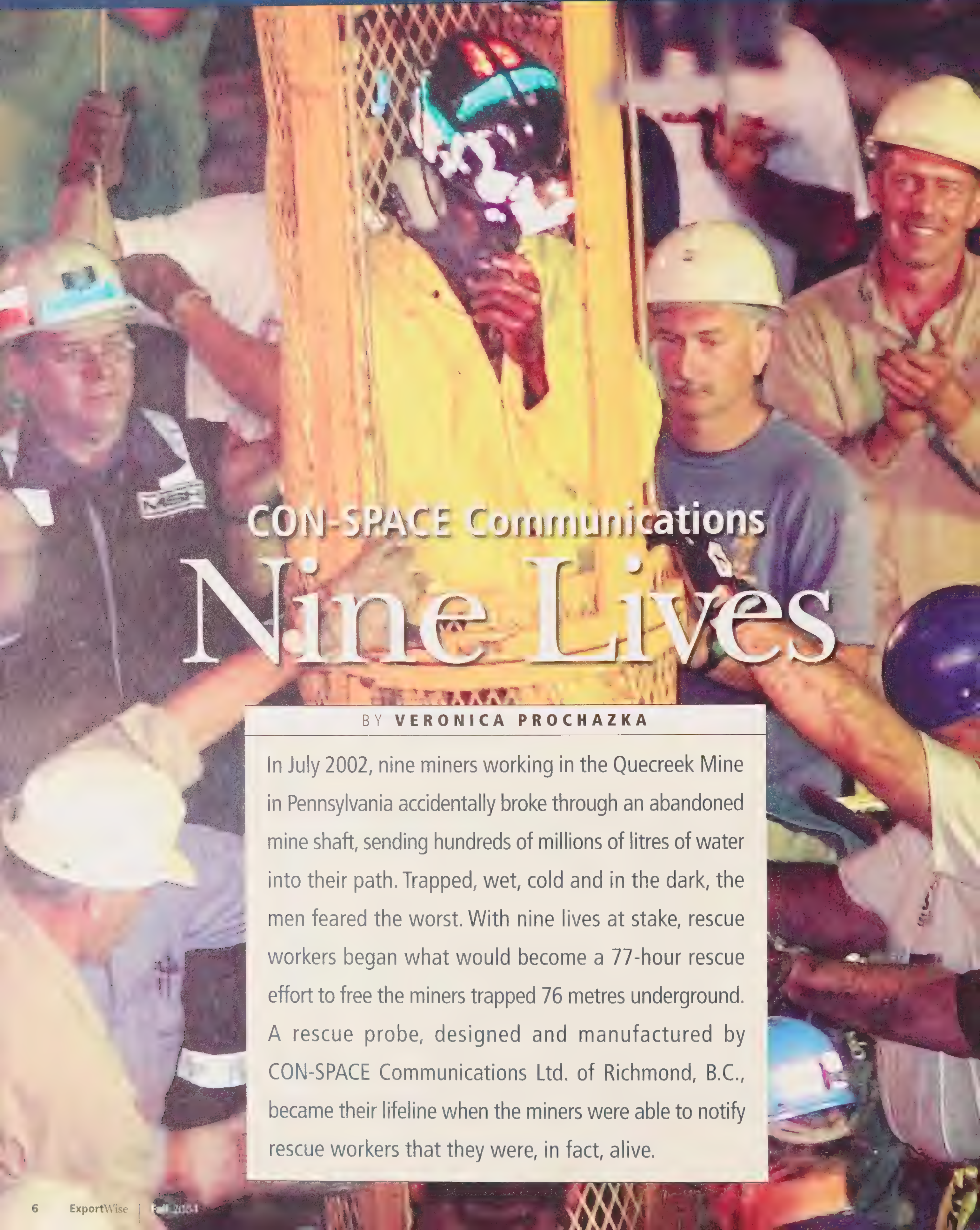
With a market as massive as the United States, carving out niches are viable solutions. In fact, the specialty, luxury, and high-end markets are all growing.

While Parasuco has exploited the high-end jeans market, other Canadian companies have also successfully found a niche within the United States, such as Justina McCaffrey Haute Couture's bridal gowns in Ottawa and Vancouver-based ARC'TERYX Equipment Inc. with its innovative sporting apparel.

The Canadian Apparel Federation urges other Canadian companies to identify their unique competitive advantage and focus on it in order to succeed in the global marketplace.

"Creativity is our competitive advantage. We developed sandblasted denim and stretch denim. We want to become the first Canadian fashion-lifestyle brand," says Parasuco.

He doesn't say this lightly. At the age of 19 he opened his first store; 32 years later, he is still as determined as ever to stay in business. ■



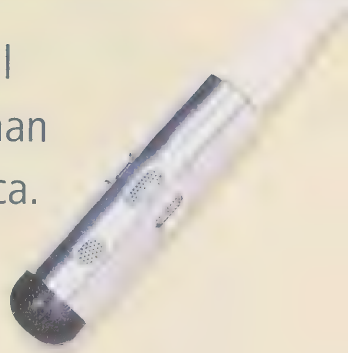
CON-SPACE Communications

Nine Lives

BY VERONICA PROCHAZKA

In July 2002, nine miners working in the Quecreek Mine in Pennsylvania accidentally broke through an abandoned mine shaft, sending hundreds of millions of litres of water into their path. Trapped, wet, cold and in the dark, the men feared the worst. With nine lives at stake, rescue workers began what would become a 77-hour rescue effort to free the miners trapped 76 metres underground. A rescue probe, designed and manufactured by CON-SPACE Communications Ltd. of Richmond, B.C., became their lifeline when the miners were able to notify rescue workers that they were, in fact, alive.

CON-SPACE's customer list includes all U.S. Federal Emergency Management Agency teams and more than 1,500 fire department rescue teams in North America.



Birth of a lifeline

The Pennsylvania miners rescue isn't the first time CON-SPACE Communications equipment has been used for rescue purposes, and it won't be the last. Today, the company's products – two-way voice communication devices designed for use in confined spaces and hazardous environments – are arguably the standard communication equipment used by rescue teams throughout North America, the United Kingdom and Australia for confined space, structural collapse and trench rescue operations.

This hasn't always been the case, however, explains CON-SPACE Co-Founder and President Terry Ibbetson. "In the beginning, people didn't really know what we did. They didn't even know what a confined space was (a space with limited entry and exit and not designed for constant occupancy) or have an appreciation for what the people who work in them have to do." But slowly and surely, everything changed.

In 1993, regulations pertaining to working in confined spaces (such as manholes, airplane fuel tanks, mine shafts, etc.) were implemented in the United States. These regulations made it mandatory for anyone working in a confined space to have access to a fully equipped and trained rescue team. "All of a sudden rescue became one of the biggest drivers of our business," says Ibbetson.

As a result, CON-SPACE's customer list developed steadily and now includes all U.S. Federal Emergency Management Agency (FEMA) teams and more than 1,500 fire department rescue teams in North America, as well as police departments, state and municipal governments, water and waste-water departments, nuclear and power generation plants, most international airlines, many major petrochemical and pharmaceutical companies, and general industry, plus all branches of the U.S. and Canadian military, the U.K. Ministry of Defence and both the Australian and New Zealand air forces.

As a result of its predominance in the rescue market, when the terrorist attack on the World Trade Center occurred in New York City, CON-SPACE equipment was immediately deployed by all FEMA teams at both Ground Zero and the Pentagon. Following 9/11, the programs of the Office of Domestic Preparedness (under the U.S. Department of Homeland Security) have been the primary reason for the company's growth during the past three years and has influenced international sales in countries such as the United Kingdom, Australia and Norway.

Trade shows: CON-SPACE's lifeline

"We're a show and tell product," says Ibbetson. "Trade shows are what make up the majority of our marketing mix. They're essential to us." With 37 industries as potential clients, CON-SPACE chooses their trade shows wisely.

When the company searched for a common denominator among all industries using confined spaces, they found most entered confined spaces with the intention of fixing some sort of corrosion problem. Therefore, as part of the approximately 25 shows they exhibit at each year, they target three trade shows specifically on corrosion, the National Safety Council Congress and Expo and two national fire trade shows.

"In addition to making sales, contacts and generating leads, trade shows also give us the opportunity to set up distributors, which is extremely valuable as our distributors are our lifeline to the buying public."

EDC a contributing success factor

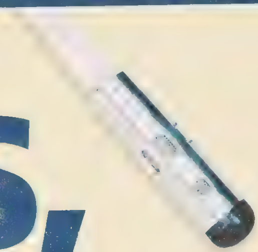
Currently, CON-SPACE has more than 450 distributors in North America alone, one master distributor in Australia, several in Asia, and a wholly owned subsidiary in the United Kingdom. In fact, the company's greatest growth this past year came from their U.K. operation.

Three major orders from the U.K. government accounted for the company's high growth and Ibbetson is quick to give credit where credit is due. "Without EDC's Pre-Shipment Financing (PSF), we wouldn't have been able to do it." PSF helped cover the upfront costs incurred before CON-SPACE received payment from the customer so it could buy raw materials, build the product and ship the order without affecting cash flow. "EDC's quick and reactive service was invaluable."

Building on this success, CON-SPACE is working to develop a network of distributors that will cover the European Union, all in a continued effort to provide workers throughout the world with a vital lifeline. ■

COMPANY PROFILE

Company: CON-SPACE Communications Ltd.
Business: Manufacture, design and sale of two-way voice communication products for confined spaces and other hazardous work environments
Location: Richmond, B.C.
Established: 1991
Employees: 37
Annual Sales: Just under $5.5 million
Exports: 95%
Export Markets: United States, European Union and Australia
Contact: www.con-space.com



Yes, We Can Hear You!

Photos: Background © Reuters/Foreground © John Sanderson Photography Inc.

Rob Zaremski, CON-SPACE's field representative in Pennsylvania, was on the scene at the Quecreek Mine accident and was the first to confirm the trapped miners were alive. Here's his firsthand account.

I was working in northwestern Pennsylvania on the morning of Thursday, July 24, 2002, when I got the news that nine miners were trapped outside of Somerset, Pennsylvania, and CON-SPACE's equipment could play a role in the rescue.

The miners had breached a wall separating their mine from an abandoned one, and their mine was now filling with water. Rescue workers were going to drill a small hole into the old mine in an attempt to communicate with the trapped men who hadn't been heard from since the day before.

Once the hole was drilled, a camera was lowered which revealed flowing water about 15 centimetres from the mine's ceiling. I then lowered the CON-SPACE rescue probe and began repeating a mantra given to me by Mine Safety and Health Association (MSHA) officials: "Can you hear me? Stay where you are … tap 10 times! Seismic will pick you up!" People gathered hoping to hear some sign that the men were alive. After about a half hour they moved on.

For the better part of the next two days, I sat over that hole with some occasional company. It became monotonous hearing nothing but running and dripping water! I began to talk to the trapped men as if they could hear me. I told them of the rescue effort and how many people had come to their aid. At one point I offered to buy each one of them a steak dinner with a six-pack of beer if they would just make some noise.

Early on Saturday evening, the rescue workers were close to punching a hole through the ceiling of the Quecreek Mine. I began asking if we could once again send down the CON-SPACE probe. When we lowered the probe, it was so sensitive it was picking up topside rescuers talking for nearly half of its 71 metre descent. I was told that I might not hear anything, as the men may have completely walled themselves in and would be unable to communicate.

With 15 metres to go, I thought I heard something. The crowd of rescuers went quiet as I asked, "Can you hear me?" "We can hear you!" someone replied. From lack of sleep or disbelief, I asked again, "Can you hear me?" Once again the same response, "We can hear you!" Shocked, I tried to think of a question that would make certain that I was talking to the "Quecreek Nine." All I could come up with was a question that I'm teased about to this day: "Are you the trapped miners?" Miner John Phillipi's response was: "Yea … What took you guys so long?" I then asked, "How many are there?" Phillipi responded: "We're all nine here."

We stayed in communication with the men as one by one they entered the rescue capsule. Mark Poppernack was the final man to surface and, thanks to CON-SPACE, he had someone to talk to until he reached topside.

There are a number of factors that made this rescue successful, such as Global Positioning Systems, cell phones, the CON-SPACE probe, and many other state-of-the-art devices. But perhaps most important were the efforts of the men and women who gave up 77 hours of their lives to help save nine lives. ■

Shaftesbury Films: All in a Day's Play

BY **JANE DALY**

Photos: Courtesy of Shaftesbury Films Inc

Christina Jennings is working long hours – troubleshooting, co-coordinating, managing a mountain of details – and loving every minute of it. As Chairman and Founder of Shaftesbury Films Inc., and overseeing production of the company's latest television movie, her days include more drama, adventure and action than most jobs could offer.

After starting the company in 1987 with feature films, Jennings decided that the business needed to expand into television to be sustainable. "Today, we do TV movies, mini-series, children's programming, large-format IMAX films and more," she says. Shaftesbury is now one of Canada's leading producers of both television movies and series, and has $500,000 to $700,000 of production in development at any given time.

Despite the heavy lineup, Jennings still oversees the production of all of Shaftesbury's feature films and television programs, as well as the sales on all of Shaftesbury's projects – either selling directly to domestic broadcasters or working with agents on foreign sales.

One of Shaftesbury's strengths is a commitment to creating distinctive, high-quality productions that are relevant to worldwide audiences. "We develop films and programming that can be adapted to new markets," Jennings explains. This is an increasing challenge, as many countries seek to maintain a cultural identity by producing and broadcasting their own films.

As a result, the Shaftesbury management team keeps a close watch on changing tastes, and the company also develops relationships with broadcasters to find out what kinds of programs they're looking for.

Once the company takes on a production, the action begins. The team develops the scripts and concepts, as well as handling the production, financing and distribution. "Producing involves a lot of problem solving and troubleshooting, both on and off the set," adds Jennings. "But no matter what happens on the business side, we keep our eye on the creative side to ensure the highest quality of production values."

The Shaftesbury management team is as innovative in their approach to financing and distribution as they are in producing award-winning programming. "We're always looking for ways to do things even better," says Jennings.

In fact, Shaftesbury recently approached EDC to develop a tailor-made solution to provide receivables insurance for an advance based on projected sales. "Usually, we sell by contract to foreign broadcasters, who pay out the receivables over five years, or sell the international distribution rights to foreign sales agents," Jennings explains. "But we need money upfront for production. Working with the Royal Bank, EDC developed a receivables insurance solution that allows us to get an advance based on projected sales rather than agent contracts, as well as enabling us to sell the product directly to customers in partnership with foreign distributors, so that we maintain the distribution rights."

"What impressed me the most about EDC was their willingness to look at a slightly different model that worked – both for us and for the Royal Bank," Jennings sums up. ■

COMPANY PROFILE

Company: Shaftesbury Films Inc.
Business: Television and IMAX programming
Location: Toronto, Ontario
Established: 1987
Contact: www.shaftesbury.org

Finding Customers
in Developing Markets

BY **DENNIS** AND **SANDI JONES**

Can a company with little or no foreign business experience hope to succeed as an exporter to a developing market? If you have a product that's among the best in the world, with customer service to match, the answer is very likely – yes.

Seeking out your market

Finding potential customers starts with discovering where and how they live. This requires some careful research, because entering a developing market does involve a certain amount of risk along with its opportunities. Such risks can arise from political, cultural, economic, climatic or financial factors, and learning about them will help steer you away from markets that could cause you problems, such as facing a deeply entrenched domestic competitor or being subject to extremely high tariffs. On the opportunity side, your research will help you focus on the markets that contain the best potential customers for your product, and will aid in deciding which entry strategy your company should use.

What are the most reliable ways to identify the markets that contain your ideal customers? According to Elaine Sullivan Butcher, a Trade Commissioner with International Trade Canada (ITCan), a good place to start is the Canadian Trade Commissioner Service web site (www.infoexport.gc.ca). "We have market reports and a wide range of other information about many countries and specific sectors within them," she points out. "But don't stop there – do as much research as you can manage, for example, by talking to your industry association about where other members are selling products abroad. Think about your product, about your potential customers and how you might sell that product to

"Think about your product, about your potential customers and how you might sell that product to them, and use your research to narrow your prospects down to two or three countries."

— **Elaine Sullivan Butcher**
Trade Commissioner, International Trade Canada

them, and use your research to narrow your prospects down to two or three countries. Then contact the Canadian missions in those countries and talk to them about the local market. They can provide information that will help you decide how to proceed."

For a newcomer, it can also be instructive to look at the techniques an experienced exporter uses to select a market. Kryton International Inc. is a Vancouver-based company that manufactures and markets products for the repair and protection of concrete structures. Operating in developing countries from Mexico to China, Kryton has evolved generalized market and customer profiles that help it identify those that are the best fit for the company. "Our market profiles include numerous indicators, such as ease of entry," says Kerrace Alexander, Kryton's Manager of International Business Development. "But we also rely on information from our existing customers. They provide us with insight about our products and, because they're closer to their markets than we are, they can give us suggestions about other markets we might explore. We've also built up strong relationships with the Canadian government through ITCan, which has helped us enter new markets in both the developed and the developing world. Another valuable relationship is the one we have with EDC, which we use for various foreign transactions."

Opening the door

How you intend to enter your chosen market is a key question, because it helps determine the kinds of customers you'll seek out. Will you sell directly to your product's end users, or will you operate through a local partner of some sort?

"Having a local partner or distributor to represent you is often the best way," notes Sullivan Butcher. "It saves you travel, and you have someone local who knows the country and the cultural climate, as well as how business is done and which people are good contacts. A trusted local partner can be of major importance, for example, in establishing a network to sell to local distributors."

Whether you use an intermediary or deal with the end user directly is often determined by the nature of your product. "A buyer of a million-dollar machine," says Sullivan Butcher, "will probably want to deal with you directly. But if you're selling a million units of a $5 product, a distributor might be a better option."

Some companies do both. Kryton, for example, has a worldwide network of distributors but also works on a project basis, supplying its product directly to its end users. The company's customer and market profiles, along with feedback from existing buyers, help the company decide on a case-by-case basis whether to sell directly into a market or use a distributor.

Calling on customers

In one important respect, there's little difference between an end user and a distributor – they're both your customers. The question is, once you've decided on a market, how do you actually identify potential buyers?

Sullivan Butcher's advice is to contact the Canadian Embassy in the target country. ITCan Trade Commissioners there will respond with information about market prospects and local companies, and can help with visits to the market, key contact searches and face-to-face briefings. For example, they might introduce you to members of the local Chamber of Commerce or the local trade association; you could then open discussions with these contacts and follow up with an on-the-ground visit to establish personal relationships and perhaps make your first sale. If you've already identified a company as a potential customer, the embassy can also help by telling you more about the company and how it fits into the local scene.

In addition to working with ITCan to find potential partners, Kryton relies strongly on its customer-profiling techniques. "We look at our most successful customers to come up with the ideal distributor profile," says Alexander. "Sticking to it lets us seek out partners around the world who meet our requirements – we don't wait for them to come to us. When we identify a potential distributor, we put the company through a pre-qualification process before we even make contact. As a result, our closing rate is very high."

Customs of the country

It's easier to enter a developing market if you have some awareness of the local culture. In some countries, for example, people are reluctant to say no directly or to admit that they're not really interested in doing business. The trade commissioners in the local Canadian Embassy can tell you what the norms are, which will help you avoid confusion or embarrassment.

But the most important key to entering a developing market, advises Sullivan Butcher, is patience. You may find that everything takes a lot longer, with distance, language, culture, politics and economics all adding their own layers of complexity. As a result, you may need more time to identify your buyer, build the relationship, complete the sale, receive payment and make the all-important second sale. But as you do so, keep in mind that Canadian products have a good reputation in the developing world and so do Canadian exporters. Countries all around the globe want to do business with us, and if you succeed once, you'll succeed again. ■

Keeping Customers in Developing Markets

BY **DENNIS** AND **SANDI JONES**

To succeed in any developing market, you have to be sure that your first sale to a customer won't be your last. From Brazil to Bangladesh, the ideal way to keep your buyers is to establish long-term, dependable relationships with them – despite the barriers of distance, culture and language.

Service from A to Z

Reliable customer retention depends on several factors. Reasonable prices and high-quality products will certainly help keep your buyers' loyalty, but these in themselves can't always guarantee a long-lasting relationship. A crucial added ingredient is customer service. Understood in its broadest sense, this means how the entire deal is handled, from the time your sales or marketing people first encounter your buyer, through the order and delivery process, to the provision of any after-market support the customer may need. From your buyers' point of view, in fact, customer service includes the whole experience of purchasing something from your company. If it was a good experience, all other things being equal, they'll be back.

> The relationships that help an exporter keep its customers in a developing market are built, above all, on clear communication and mutual understanding.

Cushioning culture shocks

Customers in a developing market will, quite understandably, evaluate the quality of your service according to their own cultural values. This, says Dr. Michael Guolla, who teaches marketing at the University of Ottawa, means that clear communication is of paramount importance right from the start of a relationship. "You'll encounter problems if there is a misunderstanding between what buyers expect and what they actually receive," he observes, "and by producing incorrect assumptions on both sides, poorly-understood cultural differences can make for a difficult relationship. But these difficulties can often be avoided if the seller and buyer are both clear on what they can and can't do in the transaction. If that's established, a customer will be more likely to feel that the seller has met expectations, and will be satisfied with the results."

Does this mean you're always better off, in a developing market, to sell through a local representative rather than directly to the end users of your product or service? A local distributor or agent, after all, knows his or her business and social culture far better than you ever can.

There's no hard-and-fast answer to this question – it all depends on the characteristics of your company and your product or service. Sinclair Technologies Inc., for example, is an Ontario-based manufacturer of high-quality antennas used in communications networks in Asia, the Middle East and Latin America, and has years of experience in selling abroad. "Our model," says Dave Daniel, the company's Director of Marketing, "is to have local representatives who understand the language and culture and who can find out about the projects that are surfacing in our market. We believe that we would never know enough about local conditions to sell directly to our customers, so we build relationships with our representatives by communicating with them regularly and by visiting them in person twice a year."

Going it alone

But in other instances, notes Dr. Guolla, "customers who have become experienced with the exporter may eventually prefer direct contact to going through an intermediary. This can be a very good thing, because it suggests that the customer is committed to maintaining the relationship, which is precisely the result you're looking for."

Such direct exporter-customer contact is becoming more common, according to Bryan Hughes, Senior Business Development Manager in EDC's Vancouver Office. "For the exporter, this means finding the resources that will allow the company to be in tune with the customer's needs. A Chilean mining company, for example, wanted to deal directly with a Canadian bearing supplier rather than go through an intermediary. As a result, the Canadian firm set up its own distribution centre in the mine complex, so it could put the bearing supply and the associated technical expertise exactly where they were needed. It's a perfect example of the type of value-added service that helps you keep customers."

Dealing through an intermediary, of course, doesn't mean the exporter can disregard the influences of the local culture. Local intermediaries are part of their cultures, after all, and while they may not be your product's end user, they're still customers – and very important ones at that.

Sinclair Technologies recognizes this very clearly. "It's a question of retaining our representatives when they can choose products from suppliers all over the world," says Daniel. "In Asian and Middle Eastern cultures, we've found that it boils down to personal relationships that establish trust. We have to prove to our customers, on a personal level, that we're a credible supplier, that we meet our commitments, that our product is sound and that we stand behind it. All this has to happen before they'll even consider representing us. But once we've established that trust, and as long as we maintain our reputation, they'll stay with us."

Common values and bottom lines

The relationships that help an exporter keep its customers in a developing market are built, above all, on clear communication and mutual understanding. This requires face-to-face meetings, regular email and telephone contacts, and an informative, easy-to-use web site – anything that will keep the lines of communication open and nurture trust. There's a balancing act involved in such communication, says Dr. Guolla; trying to understand the particular aspects of a customer's culture on the one hand, and on the other being aware that people everywhere form attitudes in similar ways.

Daniel agrees. "We've found that retaining customers in developing markets is much the same as in developed ones," he observes. "Every customer, from Owen Sound to Shanghai, wants the same basic things: a quality product, responsiveness to their inquiries, timely delivery and a vendor who's there when needed and who settles problems promptly and fairly. Providing these services on the other side of the world is a bit more difficult than doing it domestically, and that's where our representatives come in."

Ultimately, then, keeping your customers in a developing market depends on sticking to a few well-known principles of quality and service, translated in terms of local conditions. If you're successful at it, whether you do it yourself or through an intermediary, your customers will keep coming back for more of what you have to offer. No matter where you do business, you won't find a better long-term investment than this. ■

Ukraine: In Full Economic Bloom

BY DENNIS AND SANDI JONES

Photo: © Ed Kashi/Corbis/Magma

Imagine a country whose government has been reforming its markets and relinquishing socialist-era economic controls. A country where capital spending and consumer demand are booming, whose imports and exports have doubled in four years, whose economy has grown 30 per cent since 1999. It must be China, right?

Well, it's not – it's Ukraine. In fact, from the perspective of real GDP growth, Ukraine actually outdid China's performance during the early part of 2004; the latter's growth rate during that period was 9.6 per cent, while Ukraine's was better than 10 per cent. Not only has growth been strong, but the macro-economic environment has strengthened considerably over the past few years. Foreign-exchange reserves, for example, have jumped in three years, from US$1.5 billion to almost US$9 billion. The National Bank of Ukraine has contained inflation, stabilized the currency and carefully monitors the banking system.

Moreover, the country has a treasure trove of mineral and agricultural resources, a developed infrastructure, the largest population of any country in Central and Eastern Europe after Russia, and a highly educated workforce that can make the most of its nation's assets. This has already paid off in a bustling trade with Russia, which absorbs 16 per cent of Ukraine's exports.

Does this point to Ukraine as a new and burgeoning market for Canadian exporters? The potential is certainly there. In the agricultural sector, for instance, Ukraine needs equipment such as tractors, combines and seeders, as well as breeding stock.

"We're definitely seeing farm-sector opportunities," says Lorne Cutler, EDC Regional Manager, International Markets, South Eastern Europe and the Black Sea Region. "Ukraine has reached a stage of economic development in which the agricultural sector has stabilized and now has an infrastructure that didn't exist four or five years ago. This means that local Ukrainian banks can respond to agricultural import needs, especially if they have funding support from organizations such as EDC."

In particular, Cutler observes, Ukraine can be of considerable interest to Canadian farm-equipment exporters because its geographic conditions closely resemble those of western Canada. "Machinery that's been developed for Prairie farms work very well in Ukraine. Now that Ukraine has become a net exporter of wheat, we're starting to see increasing amounts of Canadian agricultural machinery going to the big wheat farms there," he says.

"Now that Ukraine has become a net exporter of wheat, we're starting to see increasing amounts of Canadian agricultural machinery going to the big wheat farms there."

Opportunities exist in other sectors as well, including residential and commercial construction such as hotels, office buildings, and airport and seaport upgrades. Among the latter is a project carried out by Domexport Inc., a Quebec-based company specializing in the construction of large, reinforced-concrete storage domes. Domexport attracted the attention of the Ukrainian company AJV Nibulon, which awarded the company a contract to build two such domes for grain storage in the Black Sea port of Mykolaev. Financial support for the project was provided by EDC through the State Export-Import Bank of Ukraine, with risk-sharing assistance from Denmark's export credit agency, EKF. The project, says Domexport's Vice-President Raymond Boissonneault, was such a success that negotiations will soon take place for the construction of three more domes in 2005.

Canadian exporters may find further opportunities in Ukraine's infrastructure, which needs overhauling. The energy sector requires better technology and there is growing interest in using Canadian equipment for secondary and tertiary oil recovery. Power plants need modernization; the metallurgical sector in particular is booming because of strong Chinese demand for steel, and steel plants consequently need upgrading. Consumer demand is rising in the larger urban centres, and Canadian consumer-goods companies already selling products in Western and Central Europe might consider extending operations into Ukraine.

Exporting to Ukraine does involve certain risks. One issue has been a lack of business transparency, but Ukrainian companies are slowly adopting higher standards as they become accustomed to dealing with the West. Corruption does exist and the legal system can cause problems for foreign businesses, so Canadian companies should carry out the appropriate due diligence before any contracts are signed.

While there are several opportunities for foreign direct investment (FDI) in Ukraine, Canadian companies are primarily focused on selling into this market, at least for the moment. This may change after the Ukrainian elections this fall. Most observers hope that once the elections are over, Ukraine will be able to focus on the further economic, judicial and tax reforms that will be required to attract increased levels of FDI.

While there's still much work to be done, Ukraine has succeeded in establishing the foundations for continued growth and increasing prosperity. For Canadian businesses, this bears the promise of a new and vibrant market in which they can hope to play a significant role. ■

ECONOMIC SNAPSHOT

Population (2003): 47.5 million

Nominal GDP (2003): US$49.5 billion

Total Trade / GDP: 91%

Currency: Ukranian Hryvnia

Merchandise Imports from Canada (2003): US$47 million

Main Sources of Foreign Exchange (excl. FDI): Non-precious Metals (36%)

Largest Merchandise Trading Partner: Russia (18%)

Main Imports: Fuels (42%), Machinery & Equipment (25%)

Risks to Outlook

↑ • Strong growth in Russia

↓ • Agriculture remains extremely important contribution to GDP

Prepared by Mark Worrall, EDC Economist
www.edc.ca/economics
October 2004

Farm World: Reaping What They've Sown

Photo: Courtesy of Farm World Equipment Ltd

In the early 1900s, work was hard and arduous for farmers on the Canadian prairies. Even using sulky plows, a "modern technology" of the times, required a team of horses and oxen and several back-breaking days of work just to prepare a field for planting.

Fortunately, today's farmers in Canada and around the world can rely on a company called Farm World Equipment Ltd. to not only make their lives easier, but also more affordable.

Located in northeastern Saskatchewan, Farm World is a major supplier of new and refurbished farming equipment, such as combines, large horse power tractors, spraying and no-till seeding equipment. It has one of the largest farm equipment inventories in Western Canada, an excellent supply of parts and 20 qualified service technicians.

Family-owned, Farm World's roots date back to the 1950s – a time when, according to General Manager Marge Cook, "every family had a plow and every quarter-section had someone living on it."

Times have changed! Economic pressures have forced farmers to expand, resulting in fewer farms overall. "Fewer farms have created less demand for farm equipment dealers, so dealers are looking for other markets as well as acquiring other dealerships," says Cook. Farm World acquired two Saskatchewan dealerships – one in Humboldt in 2002 and another in Prince Albert in 2004. There are also two sister companies, including a farm equipment dealership that gives Farm World access to many other equipment lines, and Eldon Trucking, which delivers the company's equipment all over North America.

Farm World also began exporting in 1994. "Our goal was to find homes for good, used farm equipment," says Cook. "One challenge is convincing foreign customers that our used equipment is in very good condition." Cook explains that Western Canada farmers typically put in only 200 hours a year on tractors and 300 on combines. "This makes for an excellent piece of equipment that looks like new and has low hours, at a reduced price."

Just as important, Farm World offers experienced advice. Owner Dave Cook is also a farmer, and can provide input into seeding practices, chemicals and fertilizers. He's even worked with farm equipment manufacturers to develop and improve equipment. "Dave loves to get out in the field with a customer and share his knowledge on what will make their farms more productive," says Marge Cook.

Once a sale is made, Farm World experts travel to the purchasing country, set up the equipment and make sure everything is working properly. "Because of new farming methods and technology such as Global Positioning Systems, variable seeding, spraying and auto steer, it's absolutely necessary to have someone on the ground to assist," says Cook.

Farm World is reaping the benefits from the customer relationships they have sown. One of the leading agriculture companies in Ukraine has chosen to buy several million dollars worth of equipment from them.

Lorne Cutler, EDC Regional Manager, International Markets, South Eastern Europe and the Black Sea Region, handled the deal to supply their first direct financing. "Coming out of an 80-year recession, Ukraine is becoming an important market for Canadian equipment suppliers," he says. "In addition to selling, it's important to develop customer relationships – and that's another area where Farm World really excels." ■

COMPANY PROFILE

Company: Farm World Equipment Ltd.
Business: Broad acre farm equipment
Location: Kinistino, Saskatchewan
Established: 1984
Employees: 95
Exports: 5%
Export Markets: Australia, Ukraine, Russia, Kazakhstan, Pakistan
Contact: www.farmworld.sk.ca

Photo: © The Canam Manac Group Inc.

Technyx: Bridging the Engineering Gap

BY **MICHAEL TOOPE**

Technyx – a Quebec-based business unit of the steel manufacturing and construction conglomerate The Canam Manac Group Inc. – has turned a wealth of Romanian engineering talent into a profitable international resource for global clients through a management model that bridges time zones and cultural differences.

Small- and medium-sized construction companies usually outsource their requirements for engineering drawings on a per project basis, resulting in lost knowledge and time as partnerships are rebuilt for each project. Technyx provides an efficient alternative by making a pool of construction engineers and detailers available for those times when the engineering demands placed on smaller firms suddenly increases. Technyx employees are assigned to client companies for a renewable period of one year, becoming a dedicated resource available to do any engineering work required. While clients are responsible for managing the day-to-day workload of the offshore Technyx employees, Technyx takes care of human resource management, office infrastructure and administration costs.

"We help our customers become more efficient because they can focus on what they do best, and rely on us for high-quality engineering support," says Jean Thibodeau, President of Technyx. Most of Technyx's customers have renewed for two or more years, and new customers are coming in rapidly as the global economy improves and the steel industry picks up pace. Technyx expects to double in size over the next five years.

Canam Manac first developed a pool of Romanian engineering talent for its own building projects. Skills in steel detailing – making shop floor drawings from engineering and architectural designs so that steel building components can be properly cut, drilled and welded – were becoming scarce in North America as skilled employees retired. But Canam Manac found talented engineering graduates at Transilvania University of Brasov who were eager to deploy their skills in the global economy. Once Canam Manac learned to manage the time zone and cultural differences of this offshore work force, it realized there was an opportunity to market this resource to the international construction market, and Technyx was launched. Lower operating costs in Romania enable Technyx to recruit and retain high-quality engineers and detailers while marketing their services at an attractive price to international customers.

Thibodeau emphasizes the need to understand the local culture, the way employees talk to one another and work through hierarchies in order to attract and retain the best people and sustain a successful foreign operation. "You cannot impose a North American way of doing things, but you have to educate your local staff about the requirements of North American customers in terms of quality and attitude."

Unless you are in tune with this, you will have a hard time establishing relationships and making things work, says Thibodeau. All but two of Technyx's 250 employees in Romania are Romanian.

Canam Manac first came to EDC in 2003 for a Performance Security Guarantee to back a bank guarantee issued to cover an advance payment on a construction project in Bucharest. They have since used an EDC guarantee for a bid bond. EDC is well-positioned to assist both Technyx and Canam Manac with future transactions as they pursue growth opportunities. ■

COMPANY PROFILE

Company: Technyx (business unit of The Canam Manac Group Inc.)
Business: Engineering and construction services
Location: Boucherville, Quebec
Established: 1997
Employees: 250 (in Romania)
Exports: 100%
Export Markets: Europe, North America
Contact: www.technyx.net

Romania: Fertile Ground for the Canadian Brand

BY **JULIAN BELTRAME**

Ask anyone from most former Soviet bloc countries about Canada and the discussion will invariably turn to hockey. The lone exception may be Romania. There, Canadian expertise is as likely to be associated with technological know-how as with puck-handling prowess.

The Canadian brand in this emerging South Eastern European country of 22 million first gained a foothold with the CANDU nuclear generating station at Cernavoda. With a second reactor under construction, and the implementation of cellular telecommunications services by Montreal's Telesystem International Wireless (TIW) Inc., it is clear that the Canadian brand is now firmly entrenched in Romania.

That's good news for Canadian investors and exporters eyeing Romania for opportunities during its dramatic transformation from a central-planning, Soviet-era system into a democratic, market economy. "Having two showcase projects in Romania gives Canada an excellent reputation to capitalize on," says Lorne Cutler, EDC Regional Manager, International Markets, South Eastern Europe and the Black Sea Region.

And with Romania undergoing a ground-up retooling of its economy, there are plenty of opportunities, adds Jean-Louis Renaud, EDC Senior Economist, Economic Analysis and Forecasting. "They are redoing their economy from A to Z," he said.

Change, and the determination to change, came later to Romania than for most of its neighbours. Although it still lags behind most central European countries, Romania has made impressive strides since the late 1990s. It has reformed the judiciary, cut red tape, weaned many industries of their dependency on government supports, particularly the electrical sector, and aggressively pursued foreign entrepreneurs. Since 2000, Romania has enjoyed a stable growth rate in the four-to-six per cent range and inflation is nearing single digits.

As well, Romania has moved to formalize its place in Europe. Last March, the country became a member of the North Atlantic Treaty Organization (NATO). And recently, Romania was nominated to join the EU by 2007, and is well along the way to completing the structural changes required to be recognized as a "functioning market economy."

While EU accession is an important step, Romania already enjoys virtual free trade with the continent, making it a natural springboard from which to access the large and affluent European market. Romania has a skilled and well-educated labour force, one of the lowest wage structures in the region and a rising consumer culture, Cutler adds.

> *"Romania offers investors a large internal market with potential in all sectors of the economy."*

"Our government has identified China and India as the hot emerging markets, and that's as it should be," says Cutler. "But while Romania and other countries in this region don't have the population, they have much to recommend them. Most important, they are in Europe. If you are a Canadian auto parts company interested in supplying an auto plant in southern Germany, you're going to be able to do it a lot better from Romania than from China."

Romanian Minister-Delegate for Trade, Eugen Dijmarescu, told *ExportWise* that his government welcomes foreign investments. Canadian expertise in the energy sector, particularly energy transport systems and power plants, environmental protection solutions and forestry practices, make a good fit at this time. In return, he adds, "Romania offers investors a large internal market with potential in all sectors of the economy, as well as an ideal manufacturing platform for Canadian companies wanting to expand their sales to South East Europe and the European Union."

While issues of stability, corruption and old-style labour practices remain a concern, Dijmarescu stresses that rising FDI inflows into Romania is evidence these hurdles are being overcome. Cutler agrees the concerns are overblown. "There are still some issues," he says, "but these areas are improving. Overall, there are no over-riding issues, economic or political, that would prevent EDC from supporting business in Romania."

Montreal's TIW Inc. can attest to Romania's reliability as an investment market. Since launching its mobile phone service in 1997, TIW has encountered few bureaucratic obstacles, says Jacques Lacroix, Vice-President of Strategic Planning. "People tend to think these countries are not like us, but they are not that different," he says. "You can get things done." He adds that TIW's Romanian subsidiary has had to meet hard currency obligations on many occasions, either to pay suppliers, banks, or issue dividends to its shareholders, and in all cases, they encountered no resistance from authorities.

Despite some opposition in the country to the pace of modernization, Romania is unlikely to step back from the course in any significant way. "They see their future in the West, not in the East, and not in the past," Cutler says. "With EU accession on the horizon, there's a powerful inducement to keep moving forward." ■

ECONOMIC SNAPSHOT

Population (2003): 21.7 million

Nominal GDP (2003): US$56.9 billion

Total Trade / GDP: 74.9%

Currency: Romanian Lev

Merchandise Imports from Canada (2003): US$84.9 million

Main Sources of Foreign Exchange (excl. FDI): Textiles

Largest Merchandise Trading Partner: Italy (20%)

Main Imports: Machinery and Equipment (23%)

Risks to Outlook

↑ • Solid, sustained and irreversible structural reforms

↓ • Policy slippage

Prepared by Jean-Louis Renaud, Senior EDC Economist
www.edc.ca/economics
October 2004

Bulgaria:
Tides of Change

BY **PETER BRAKE**

"Bulgaria is focused on laying the groundwork for a successful and buoyant market economy by enhancing its privatization efforts, economic reform and infrastructure development," says Bulgarian Finance Minister Milen Veltchev.

Photo: © Carmen Redondo/Corbis/Magma

An advocate of strengthening Bulgaria's international competitiveness by encouraging private investment, Minister Veltchev is one of many Western-educated Bulgarians with extensive foreign business experience who have returned to play a role in the country's economic transformation.

"Bulgaria has experienced a robust economy over the last five years with growth in 2003 of more than four per cent and forecasted expansion in 2004 of five per cent," says Minister Veltchev. "Bulgaria's location is one of our primary assets. We are a conduit between Central Europe and developing Eastern markets such as Turkey and Ukraine."

Bulgaria's desire to strengthen trade relations extends beyond its European neighbours. Minister Veltchev has visited Canada several times to promote Canadian trade and investment in Bulgaria. "We are well positioned for Canadian companies wishing to access the EU market. Bulgaria offers advantages in industries such as food and food processing, automotive, telecommunications, health care and IT software development."

While Canadian exports to Bulgaria amounted to only $17 million in 2003, this level is expected to increase in tandem with Bulgarian development. "Canadian companies are aware of the trade potential in Bulgaria and South East Europe," says Klaus Büttner, EDC Regional Vice-President, International Markets, Africa, Europe and the Middle East.

Initially slow to embark on the kind of development that marked other nations after the collapse of communism, Bulgaria is trying to make up for lost time by highlighting advantages such as its low cost, highly educated labour force known for their scientific and technical skills. "Our effort to enhance the role and protection of the private sector has created an attractive investment climate leading to a surge in foreign investment in the last two years," says Veltchev.

Upgrading industrial capacity is a primary goal of the emerging Bulgarian business class. Lorne Culter, EDC Regional Manager, International Markets, South Eastern Europe and the Black Sea Region notes, "Bulgaria's progress is demonstrated by it meeting

"[Bulgaria is] well positioned for Canadian companies wishing to access the EU market."

the requirements for European Union (EU) accession in 2007 and successive upgrades to its investment grade credit rating from Standard & Poor's credit rating agency."

Bulkflow Technologies Inc. of Calgary is one of many Canadian companies that have experienced the new dynamism of Bulgarian enterprise. Bulkflow is an internationally recognized supplier of coolers and heat exchangers for bulk solids, selling to such customers as fertilizer producers, chemical companies, detergent producers, plastics and resin manufacturers and companies in the sand and minerals industry. As Claudio Forniciov, Vice-President, International, observes, "In 2000, Bulkflow had its first contact with the then state-owned fertilizer complex. The project was postponed but revived in 2003 under private management.

"The new owners were eager to modernize. They were very aware that Bulgaria has to produce to Western quality standards and it was a priority for them to integrate advanced systems and technology into their production process."

The country's transformation has also led to Canadian interest in the country's energy sector. Most state-owned electric distribution companies will be privatized in 2004. In addition, Bulgaria has announced tender schedules for a new nuclear plant and for the construction of oil and natural gas pipelines to meet expanding energy requirements. And, although Bulgaria has limited proven reserves of fossil fuels, exploration activity is ongoing in the Black Sea.

"We encourage Canadian companies to participate in the competition process for exploration rights in the Bulgarian portion of the Black Sea," says Minister Veltchev. "Bulgaria is well positioned as a vital link in the regional energy grid. We are a natural conduit for eastern energy suppliers to reach the hungry western and southern Europe market."

However, Bulgaria still exhibits some of the difficulties associated with transitional economies, but sustained economic growth promises to diminish those issues over time. As Forniciov says, "A great many Bulgarians have the desire to do business, but not the financial capacity. You have to be patient and do your homework to ensure it's a sound business deal. We found other Canadian companies to be great sources of information and helpful tips."

Cutler adds, "While transparency is still a struggle for those not used to Western standards, this situation is rapidly improving. Authorities are implementing anti-corruption measures and establishing transparency requirements in accordance with EU standards."

Armed with new vitality, Bulgaria's private sector is focused on leveraging the country's advantages to join ranks within the European community. ■

ECONOMIC SNAPSHOT

Population (2003): 7.9 million

Nominal GDP (2003): US$19.9 billion

Total Trade / GDP: 83.7%

Currency: Bulgarian Lev

Merchandise Imports from Canada (2003): US$12.4 million

Main Sources of Foreign Exchange (excl. FDI): Textiles and Furniture

Largest Merchandise Trading Partner: Italy (15%)

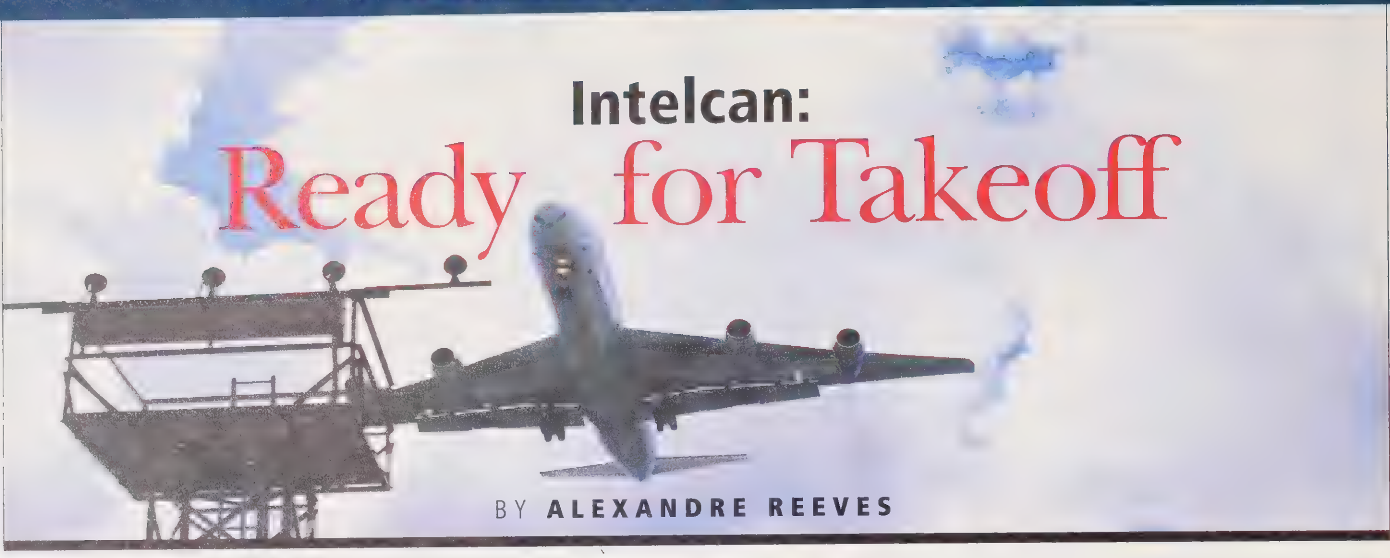
Main Imports: Machinery and Equipment (16%)

Risks to Outlook

↑ • Faster structural reforms

↓ • Higher political uncertainty and delays to privatization
• Policy slippage and unchecked current account deficit

Prepared by Jean-Louis Renaud, Senior EDC Economist
www.edc.ca/economics
October 2004



Intelcan: Ready for Takeoff

BY ALEXANDRE REEVES

The accession of Bulgaria to full North Atlantic Treaty Organization (NATO) membership in April 2004 is the latest signal of this country's integration into the Western community, as both a security ally and a maturing economic partner. Part of the price tag for this integration was a requirement to bring Bulgaria's air traffic management (ATM) systems up to NATO standards – an opportunity or "target" which Intelcan Technosystems Inc. of Ottawa couldn't resist.

For more than three decades, Intelcan has successfully developed and installed leading-edge ATM and communications/navigation/surveillance systems for civilian and military applications in more than 60 countries. "A key Intelcan strength is our ability to manage the risks inherent in developing markets and EDC has been helpful along the way," says Intelcan Chairman Mark Whittall. "When it comes to insurance, financing or guarantees, EDC is the first place we look."

More recently, EDC provided Performance Security Guarantees to support Intelcan's tender for the upgrade of Bulgaria's Bezmer military airport. Preceded by successes in Romania and the rapid modernization of the Graf Ignatievo and Krumovo airports, Bezmer is Intelcan's third Bulgarian project in as many years. Graf Ignatievo was upgraded in a mere nine months, a feat which impressed their Bulgarian client. The efficient delivery of a quality ATM system definitely paved the way for the award of the Krumovo and Bezmer projects.

"Our track record is one of our most valuable assets," says Whittall. "It takes time to develop, but the new and repeat business we enjoy speaks volumes about the quality of our products and services." A fourth Bulgarian air base is also in Intelcan's sights.

Another major asset that Intelcan has leveraged successfully is the acquisition of a skilled local partner in each of the markets it has penetrated. For example, in Bulgaria it partnered with an experienced local electronics and telecommunications company which delivers both technical and sales support.

"Although Bulgaria does not impose local content provisions as part of its procurement process, involving a local partner is a competitive advantage, from determining the key players to deciphering procurement procedures," says Whittall. "You have to make an upfront investment: develop customer relationships and find the right local partner to help open the right doors."

Intelcan's experience in Bulgaria has been free of turbulence, but this isn't the case in every market. As a seven-year-old company in 1980, Intelcan was tasked with implementing an air-to-ground voice communications system for the Roberts Flight Information Region (FIR), an air traffic control corporation managing the airspaces of Liberia, Sierra Leone and Guinea in West Africa. Another flawless implementation was soon shaken by the outbreak of civil war in Liberia, prompting the equipment's move to Sierra Leone. That rebuilt system was moved again to Guinea when armed conflict erupted in Sierra Leone.

Currently, Intelcan is helping the Roberts FIR to re-establish operations in Liberia, keeping them in business despite these challenges and allowing EDC's long-term project financing to be repaid. "Our adaptable and portable technology certainly helped us mitigate these risks, but we also gained valuable insight into managing the unexpected in a foreign market."

COMPANY PROFILE

Company: Intelcan Technosystems Inc.
Business: Air Traffic Management Systems
Location: Ottawa, Ontario
Established: 1973
Employees: 80
Exports: 95%
Export Markets: 60 + countries
Contact: www.intelcan.com

Photo: © Gen Nishino/Getty Images

Technology-Enabled Youth, Tomorrow's Exporters

BY **PHIL FONTAINE**

As National Chief of the Assembly of First Nations (AFN), I am often asked to speak at conferences, forums and other events where the First Nations' perspective is actively solicited and, I trust, appreciated. Recently, I accepted an invitation to address a small but influential gathering of senior federal and provincial civil servants and indigenous representatives attending the Third Annual National Connecting Indigenous Peoples in Canada Forum. The purpose was to begin discussions to develop a blueprint that will lead to the deployment of powerful broadband information and communication technologies to all of the First Nation communities, organizations and peoples in Canada.

The blueprint initiative is being launched in context with the United Nations' World Summit on the Information Society and in response to the action plan adopted by indigenous delegates at the Global Forum on Indigenous People and the Information Society. The AFN is keenly interested in these developments because, if successful, it will lead to the doorstep of a brave new world. A world in which indigenous culture, economies, education, health and knowledge will be provided with new opportunities to flourish, once again, on the lands of our ancestors and in new markets around the world.

As a national leader I understand that access to this technology by indigenous youth in Canada and the world over is essential so that they can acquire the skills needed to use the technology as a means to promote First Nations' interests at home and abroad. Through the indigenous blueprint for connectivity, the task of providing that future to First Nations' youth will begin by using a collaborative approach that shares responsibility with those committed.

The expertise and knowledge acquired through the successful design and deployment of the blueprint will certainly be exportable. More important is the transformation that technology can bring to how First Nations citizens will relate to their respective governments and in how they receive services. I foresee that a distinguishing characteristic will be how we interweave our cultural essence within technology in the delivery of public service programs and in other applications to our citizens. It is through their technical knowledge of information and communications technology and derivative applications that our youth may open up new markets for our goods, and create new digital access models to our cultural artifacts located in the world's archives and museums, to name but a few examples.

Clearly, to make this vision happen, the first job of First Nations'

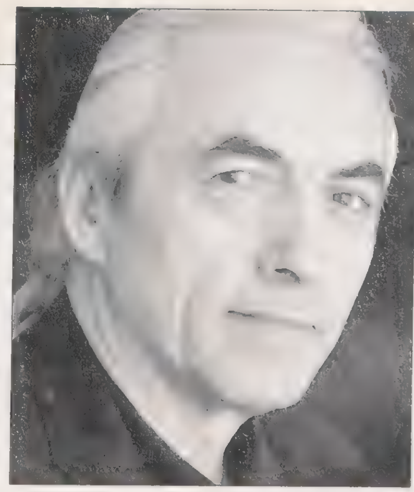


Photo: Courtesy of The Assembly of First Nations

youth is to acquire the knowledge that can open those doors. Our job as aging, but hopefully wise, leaders is to ensure that First Nations' youth are provided with the opportunity to be the builders of their own destinies in a broadband-enabled world.

The future is in the hands of our youth to build – let us help as much as possible with their cause and their project. ■

Phil Fontaine is the National Chief of the Assembly of First Nations (www.afn.ca).

Social License: It's All About Value

BY **WAYNE DUNN**

Corporate Social Responsibility, Social License, Social Investment, Millennium Development Goals, Poverty Alleviation, Community Development ... Suddenly, a whole new set of language has emerged and with it comes increased complexity for businesses operating in developing markets. This is especially true for extractive industries like oil, gas and mining. Projects can be stopped dead by local people and communities, destroying shareholder value and often executive careers.

Photo: Courtesy of Wayne Dunn

Today, projects must demonstrate that they are creating local value in order to acquire and retain a social license to operate. This sort of social investment is a relatively new area for business. Models for analyzing investments and maximizing value (both shareholder and social) are still emerging. Examples such as Peru's Tambo Grande and the Esquel project in Argentina clearly demonstrate that even with good intentions and considerable investment in local development, a social license is not guaranteed. Huge amounts of shareholder value can be lost and local communities can lose opportunities for improved infrastructure, education, health services and economic development.

The challenge is to find a responsible path forward, one that meets the needs and aspirations of local stakeholders, fits within the national government's development framework, preserves environmental integrity and produces shareholder value. Often, the first reaction is an almost automatic, knee-jerk approach – simply throwing money at social issues. Without a strategic approach, this often fails and leaves everyone worse off, local interests included.

My experience, (40-plus extractive sector social license projects in 26 countries on six continents), has led me to believe that a comprehensive value-focused and partnership-building approach is the most effective strategy. It's all about value. Let me use a hypothetical example.

Suppose you are a mining company with a promising new discovery in a remote location and a limited budget for social issues. Yet you must secure a social license. Start by asking yourself questions about value and key stakeholders. Who are the key local stakeholders? If you can develop your project into an operating mine, what value can that produce for local stakeholders? Can you act as a catalyst for bringing them additional value? Mostly, the value you can deliver, or help to catalyze, will be in areas such as local social and economic development, education, health care, gender equity, HIV/AIDS programming, etc.

Wait you say ... this is poverty alleviation: a huge task, government's responsibility and far beyond your financial and management capacity. You are right. That's why it makes sense to use a partnership and collaboration strategy to tackle this challenge. Your need to create social value shares common ground with the international development agencies of the world and with many non-governmental organizations (NGOs). This creates opportunities to develop partnerships and to utilize leverage and synergy to increase the value that you can deliver into local communities – and to your shareholders via a more secure social license. There is a direct relationship between the social value you help create, the strength of your social license and the value you create for shareholders. ■

Wayne Dunn is the founding partner of Wayne Dunn & Associates Ltd., a Canadian consultancy that works worldwide with private sector clients, helping them to transform sustainability investments into social and shareholder value. He can be reached at wayne@waynedunn.com.

GLOBE-Net: Clean Technology Companies get Online Boost

Photo: © Megumi Miyatake / Getty Images

BY **PAUL STOTHART**

To compete internationally, Canadian companies say they need relevant information about the international marketplace such as business leads, contacts and local country customs and legalities.

While this information could pertain to specific contracts or bids, another equally important aspect is to provide interested Canadian firms with better business context such as additional contacts and a fuller global picture.

In response to this need, EDC and the GLOBE Foundation of Canada have unveiled a joint initiative known as GLOBE-Net. GLOBE-Net was developed to help position Canadian clean technology companies more actively in the global marketplace by providing business intelligence and networking services in an electronic platform.

There are great opportunities for Canadian exporters and investors in the environmental industry as the value of the global marketplace for environmental goods and services is approaching $1 trillion per year. Demand for environmental technologies and services are particularly strong in developing countries where it is growing 10 per cent annually.

This Canadian business sector has no national industry association and is made up of many small or technology-based firms, relatively few of which have seriously examined the international market potential for their technology. As well, there is considerable public policy importance to the environmental business field, as illustrated by such issues as climate change and global water challenges – more than one billion people live without enough potable water and two billion suffer from the consequences of poor sanitation.

"GLOBE-Net will be of interest to all environmental companies – ranging from water technology firms to waste management and clean energy companies. The global market demand for climate change technologies, for example, is expected to amount to some $300 billion by the end of the decade. In this instance, bringing international intelligence to Canadian firms in the renewable energy, efficiency and alternate fuels area will help position them for long-term business growth," says John Wiebe, President of GLOBE Foundation of Canada.

"GLOBE-Net will help overcome a major problem identified by many companies in this sector, namely getting up-to-date market intelligence and details on available business opportunities. We hope GLOBE-Net will be the first place information seekers access to get the environmental business news they need and the links they desire," Wiebe adds.

Check out the GLOBE-Net portal at www.globe-net.ca and subscribe to the web site's free weekly e-newsletter. ■

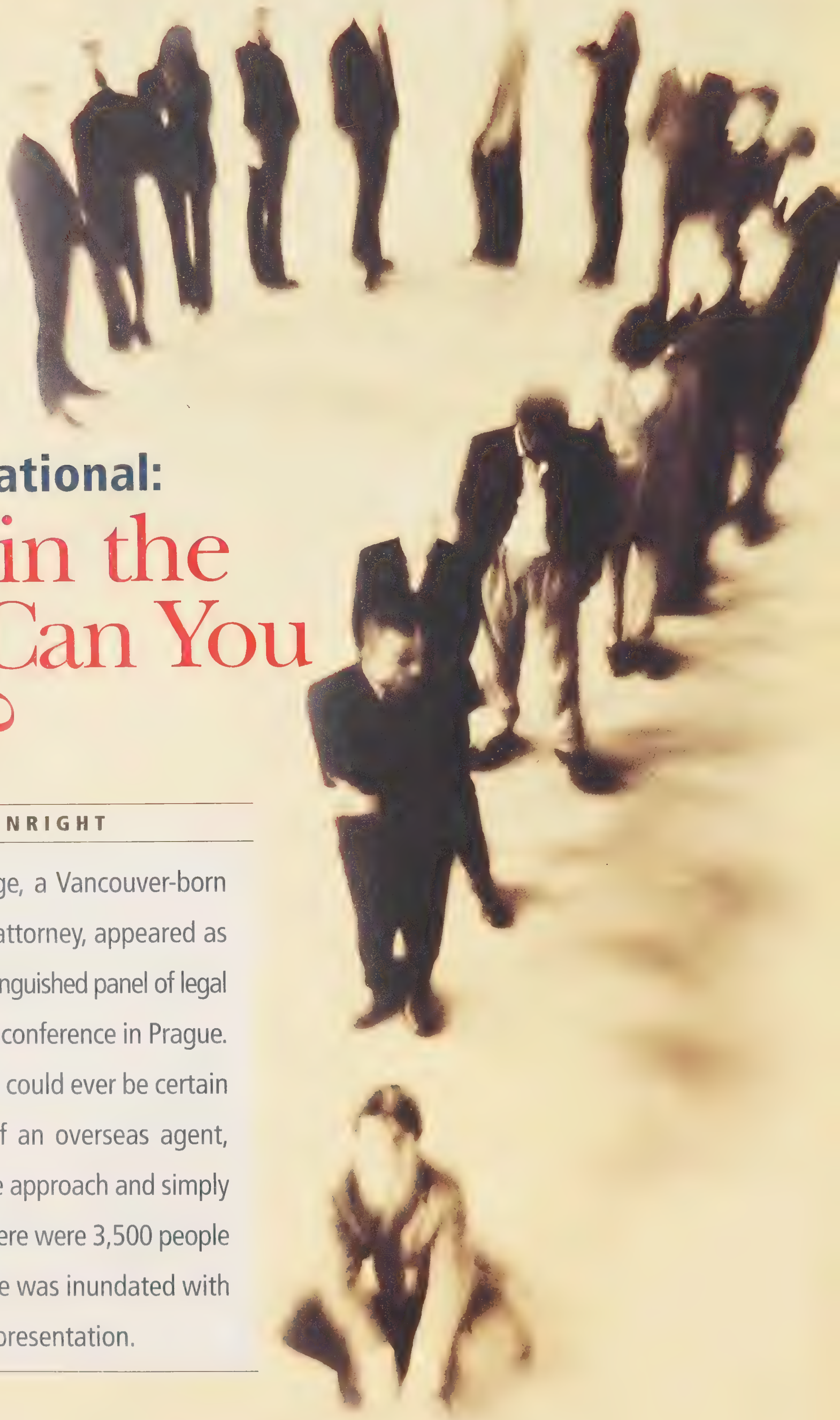
Recent Environmental Policy Developments at the OECD

The Organization for Economic Cooperation and Development (OECD) includes some 30 countries committed to democracy and the market economy, and plays a prominent role in fostering good governance. In this regard, the OECD guides the lending practices of export credit agencies (ECAs) such as EDC.

In December 2003, the member countries of the OECD's Export Credit Group agreed to strengthen and align their "common approaches" for evaluating the environmental impact of infrastructure projects supported by their governments' ECAs. Noteworthy features include greater transparency in environmental review processes, a requirement for compliance with host country and/or international standards, and a review of all projects located in sensitive areas.

More information can be found under news releases at www.oecd.org/home.

To learn more about EDC's environmental practices, EDC's Chief Environmental Advisor's 2002 and 2003 Reports are online at www.edc.ca/environment. ■



TRACE International: Who in the World Can You Trust?

BY SALLY ENRIGHT

In 2001, Alexandra Wrage, a Vancouver-born international regulatory attorney, appeared as a guest speaker with a distinguished panel of legal experts at an anti-bribery conference in Prague. When asked how anyone could ever be certain of the business ethics of an overseas agent, Wrage took a provocative approach and simply answered "you can't." There were 3,500 people at the conference and she was inundated with questions following her presentation.

The idea to form one trusted agency that could vet potential intermediaries to a single high standard was born.

A light bulb went on and Wrage decided to arrange a dinner meeting to discuss the issue. "While comparing notes, we discovered that 15 of the 18 companies at the table all worked with the same intermediary in Egypt," recalls Wrage. "We calculated that, collectively, the group had spent at least $250,000 vetting that particular agent."

Multinational companies spend tens of thousands of dollars on reviews of agents who provide a variety of services for companies overseas, including setting up an office, negotiating with government officials, acting as sales representatives and so on. The group of lawyers realized that by pooling resources, they could reduce duplication and save their companies significant sums of money. The idea to form one trusted agency that could vet potential intermediaries to a single high standard was born and the Egyptian agent became its first member.

TRACE (Transparent Agents and Contracting Entities) is a non-profit organization that pre-vets these intermediaries by offering them an opportunity to submit to an independent due diligence review and attend free anti-bribery workshops. TRACE then shares the results of the review with its member companies.

Since its inception, TRACE membership has grown to include more than 1,000 intermediaries who are fully vetted or under review. It is a membership process that Wrage describes as a carrot and stick method. "TRACE brings agents on board by winning them over with sound business principles," says Wrage. "The carrot is that intermediaries gain a marketing advantage that distinguishes themselves from their peers. The stick is that it can be revoked if they fail to comply."

Among the 120 companies using its services, TRACE boasts several of the Fortune 500; however, membership is gaining momentum among small- and medium-sized businesses for which anti-bribery compliance has not traditionally been a priority. A smaller company is far more likely to go to market using a commercial intermediary than a larger company that can afford to set up a branch office. "Often smaller or medium-sized companies don't know where to start. They can call TRACE and ask: Who do you have in telecommunications already vetted in Yemen?" explains Wrage. "The intermediary in Yemen is rewarded for being transparent."

TRACE sees itself as the hub of this network where it can take the best practices of a huge company like Shell and share them with a small Canadian exporter trying to break into the oil and gas market in another country.

At least 10 per cent of TRACE's member companies are Canadian, including Canadian Bank Note and Nexen Inc., whose general counsel, Timothy Martin, serves on the TRACE Advisory Board. "Of the remaining members, roughly half are American and half are European," adds Wrage.

TRACE is directed by an Advisory Board of highly experienced international regulatory attorneys who voluntarily provide their services. TRACE has a full-time staff of 12 employees who conduct the due diligence reviews and is the pro bono client of 32 law firms around the world.

For member companies, TRACE eases the burden on their systems and helps them to develop and enhance their anti-bribery programs. TRACE can respond to information requests, produce reports and take over internal staff roles. "Most companies use our services two or three times a month, however, there are a couple of firms we work with almost daily. Our role expands as a company's need grows."

ITT Industries' Defense Electronics & Services deals with international representatives from around the world and had conducted due diligence reviews in-house for many years. Since becoming a member in April, the firm now uses TRACE for all due diligence reviews, and estimates that TRACE services replace 75 per cent of the earlier information gathering process. "It's all they do so TRACE has a focused expertise in this area," says Kathleen Troy, Associate General Counsel of ITT Industries. "And if you find yourself in an investigation situation, having an outside independent service conducting background reviews may contribute to your credibility."

The TRACE database operates using a request system. TRACE can respond usually within 24 hours. "Recently a major U.S. company was interested in doing business in Sri Lanka," says Wrage. "TRACE had already vetted contacts there and forwarded their reports the next day."

In the last two years, more than 100 multinational companies have sent their employees and intermediaries to TRACE workshops. The organization has published the *TRACE Standard for Doing Business with Intermediaries Internationally* and continues to develop practical tools to make transparency easier, less expensive and more attractive to member companies.

But for Alexandra Wrage, the most significant and rewarding trend uncovered in the TRACE 2004 Anti-Bribery Survey is, "that companies are now doing more, committing more resources and taking the issue of bribery more seriously." ■

For more information, check out TRACE's web site at www.traceinternational.org.

Exporting is More than Just Making a Sale

BY **STEPHEN S. POLOZ**

Exporters face many challenges in growing their business, and many of them are financial in nature. Banks and insurance companies do a lot of the heavy lifting in facilitating Canada's international trade, but EDC makes a contribution, too.

Exporting sounds simple enough – a foreign buyer places an order and the exporter fills it. But exporting is much more complicated than it seems.

One issue exporters often face is getting paid. This is not really different from companies that sell only domestically, except that when the transaction crosses a border it may be complicated by differences in laws and regulations, exchange rate fluctuations, uncertainty about the foreign bank, and so on. Either way, when a company is waiting to get paid, their own working capital is not available to finance the next round of production.

Another issue faced by exporters is that their customer may want to extend payment over a period of years. Or, the exporter may have to post performance bonds guaranteeing that their product will be installed properly and by a certain date. In both cases, the company may not have the financial resources to complete the sale; or, if they do, their money will be tied up for a long time, leaving them strapped for the working capital needed to make the next sale.

What these examples illustrate is the need for financial intermediation of one form or another to complete export sales. The risk of getting paid, for example, can be taken by an insurance company – the exporter pays an insurance premium to an insurer who checks out the quality of the buyer, monitors their situation over time, and simply pays the exporter if something goes wrong. The need for foreign-buyer financing for large transactions can be filled by a bank. The bank checks out the buyer, lends them the money and holds the mortgage, and the exporter gets paid right away.

EDC's transactions helped generate $32.5 billion in Canadian GDP in 2003 – and more than 400,000 person-years of employment.

There are many financial institutions that cater to such needs, both in the banking and the insurance business. It is fair to say, though, that coverage is incomplete – there are many countries where exporters can't get an institution to go along for the ride, and many companies are too small to qualify for programs that do exist. Economists refer to such gaps in the marketplace as "market failures." The existence of such shortfalls lays behind the creation of export credit agencies such as EDC.

During 2003, EDC completed $51.9 billion in international trade and investment transactions on behalf of Canadian companies. These transactions spanned a wide range of services, from insurance on export receivables, to financing for major projects, to bonding services. EDC touched about 11 per cent of Canada's international trade in one way or another – often in partnership with private-sector institutions.

Most of EDC's work is aimed at correcting market shortfalls. Some 90 per cent of the companies that availed themselves of EDC's services were small- or medium-sized. Often such companies end up making export sales to major economies rather than developing economies. Nevertheless, EDC facilitated $10.5 billion in transactions in developing countries during 2003 – some 20 per cent of EDC's business volume, even though more than 90 per cent of Canada's international trade is with major economies. By analyzing them in detail, we estimate that EDC's transactions helped generate $32.5 billion in Canadian GDP in 2003 – and more than 400,000 person-years of employment.

The bottom line? International trade is about more than just making a sale. It's about managing risks that go well beyond the ordinary. Most of Canada's trade is facilitated by banks and insurance companies, but that leaves some of the marketplace without service – and EDC is helping to fill some of those gaps.

Stephen Poloz is EDC's Senior Vice-President and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

Associate Editor
Cressida Barnabe
cbarnabe@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Anne Tanguay in collaboration with Maguy Robert

Contributors
Cressida Barnabe, Julian Beltrame, Peter Brake, Brenda Brown, Terri-Sue Buchanan, Jane Daly, Wayne Dunn, Sally Enright, Phil Fontaine, Julie Harrison, Dennis Jones, Sandi Jones, Stephen Poloz, Veronica Prochazka, Alexandre Reeves, Gilles Ross, Paul Stothart, Michael Toope, Rob Zaremski

DC Advisory Board
Mark Bolger, Rosemarie Boyle, Donna Choquette, Marc Deschênes, Judy Dudley, Ruth Fothergill, Linda Graupner, Walt Hutchings, Suzanne Joberty, Alison Lawford, Diana MacGibbon, Suzanne Morris

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

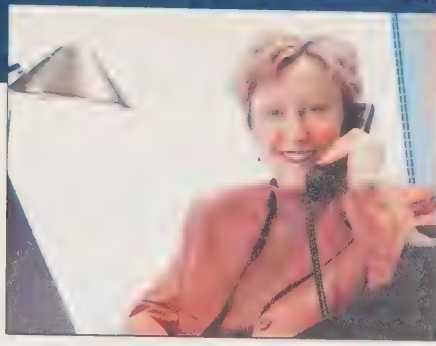
All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Printed in Canada on Canadian recycled paper.

Canada EDC

Letters to the Editor



Editor
Brenda Brown
brbrown@edc.ca

Dear Editor:

First, I want to congratulate you and your team on what has become an important resource for Canadian exporters. Topics covered in the Spring 2004 issue of ExportWise, from exporting to China to managing the Canada-U.S. border, are important issues for the members of Canadian Manufacturers & Exporters (CME), who are responsible for about 90 per cent of Canada's exports.

One of CME's core objectives is to continuously improve the competitiveness of Canadian industry and expand Canada's export business. EDC and *ExportWise* have a similar mission – to help Canadian exporters become more successful. CME's policy committees, including the Export Finance and Insurance Committee (EFIC), provide effective tools to achieve this objective.

The Export Finance and Insurance Committee is actively involved in the critical issues Canadian exporters face in becoming successful global competitors. The EFIC provides a platform to promote positive change in government policy and programs for financing Canadian exports, to become informed on current and critical export issues, and to network with senior government officials, other exporters and members of the banking community.

For years, the EFIC has successfully represented the interests of Canadian business, keeping members on the competitive edge of export finance issues. Canadian exporters can join the EFIC or receive more information about the work of CME's policy committees by emailing gordon.cherry@cme-mec.ca or calling 613-238-8888 ext. 236.

We look forward to combining our efforts with EDC's to provide new ways for Canadian exporters to adapt, compete and succeed globally. I thank you for this opportunity and wish you and your team at *ExportWise* continued success in your important work in support of Canadian exporters.

Sincerely,
Perrin Beatty
President and CEO
Canadian Manufacturers & Exporters

See What's New for 2005

When *ExportWise* hits your desk in January, we hope that you will enjoy a number of new features. You'll see the first installment of a four-part series called "Diary of an Exporter" which chronicles the ups and downs of a smaller B.C.-based company whose founder left the security of a full-time position to realize his dream.

Another notable change is the launch of our SWOT (strengths, weaknesses, opportunities, threats) Analysis, where we'll provide an in-depth look at four of Canada's most promising sectors seen through the eyes of some of the industry's top experts. The first in this series will focus on call centres – why Canada has been successful in this field, the competition we face and where the next opportunities and threats lie.

Finally, we'll be looking back to catch up with four companies that we've profiled in the past. The first company we'll be visiting is Telelink, a highly successful call centre in St. John's, Newfoundland.

Until the new year,

Your ExportWise *team*

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

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For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

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Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

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What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

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For more information on these products visit **www.edc.ca/bonding**

Online Services

Want some market insight that will actually help you make a decision?

Check out EDC EXPORT Market Insight – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, online and anytime, with EDC EXPORT Check.

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Give your foreign buyer time to pay and protect against nonpayment with EDC EXPORT Protect. Quick. Secure. Affordable.

Need to insure your bid or performance – FAST?

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Are you ready to enter the export market?

Test your readiness by completing EXPORT Able?, an online questionnaire to help you prepare your entry into foreign markets.

For more information on these products visit **www.edc.ca/e-services**

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

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Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Companies with annual export sales of up to $1 million can call our team of small business specialists at 1-800-850-9626.

Companies with annual export sales of more than $1 million can call the nearest regional office at 1-888-332-3777.

CANADA

Export Development Canada
Head Office
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

Western

contactwest@edc.ca

Linda Niro
Regional Vice-President

Calgary
Tel.: (403) 537-9800
Fax: (403) 537-9811

Vancouver
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton
Tel.: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario

contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto
Tel.: (416) 640-7600
Fax: (416) 862-1267

London
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel.: (613) 597-8523
Fax: (613) 598-3811

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

Quebec

contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic

contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel.: (709) 772-8808
Fax: (709) 772-8693

INTERNATIONAL

Mexico & Central America

Mexico City
Doug Fortney
Regional Manager
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Regional Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

China

Beijing
Winston Kan
Regional Manager
Tel.: (011) 8610-6532-3536 ext. 3357
Email: wkan@edc.ca

South East Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Regional Manager
Tel.: (011) 603-2718-3366
Email: rsimmons@edc.ca

Central Europe

Warsaw (Poland)
Dennis Goresky
Regional Manager
Tel.: (011) 4822-584-3240
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Winter 2004

ExportWise

Into Africa

Tecsult International brings its deep, multi-disciplined knowledge base into 25 African countries.

In This Issue

Photo: Doug Millar Photography

Opening Doors to Developing Markets

A. Ian Gillespie,
President and Chief Executive Officer

Canadian exporters are understandably cautious about working in developing markets. But with prudent risk management to determine the creditworthiness of transactions and partners, developing markets can yield profitable business.

A central component of EDC's public policy mandate is our commitment to expand Canada's trade and investment in developing markets. Over the past two years, EDC has facilitated more than $20 billion of business in developing markets. In Africa alone in 2002 – the region in focus for much of this issue of *ExportWise* – EDC's business volume of $604 million supported more than 200 exporters in 31 African countries. Over the past six years, EDC's support for Canadian exporters conducting business in Africa reached a total of $3.1 billion.

The key to understanding developing markets is revealed in the label we use for them – "developing." Developed markets such as those of Canada and the United States emerged after decades, if not centuries, of evolution in the legal and financial frameworks in which they operate. Some developing markets are rapidly catching up to the developed world by adopting reforms that encourage investment, such as: deregulating and privatizing state-owned enterprises, developing equity and capital markets, structuring the financing of corporate transactions, and instituting economic and political reforms.

Governments in developing markets are increasingly interested in partnerships between the private and public sectors when implementing large infrastructure projects. International financial organizations are partnering with sovereign governments and private-sector exporters to bring new development to these markets. Export credit agencies such as EDC are part of the equation, and are able to influence the direction of development so that it benefits all parties through the implementation of increasingly stringent policies and procedures geared towards sustainability and corporate social responsibility.

EDC's financial services are designed to mitigate the risks Canadians face in any global market. While many developing markets are becoming more stable and attractive, EDC's claim process kicks-in on those occasions when transactions become problematic, to ensure that the financial impact on the Canadian exporter is minimized.

EDC is playing a major role in helping Canadian exporters diversify beyond the U.S. market, particularly to new markets in Asia Pacific, Latin America and Africa. Hundreds of EDC-assisted Canadian exporters do business in developing markets every year. In addition to financial services, EDC offers front-line knowledge and expertise in developing markets. We have an International Markets team whose regional managers have expertise in the unique demands of specific developing markets, including Africa. In addition, in recent years we have established representatives on location in Poland, China, Brazil and Mexico, who are building market relationships and who provide financial and risk-management advice to Canadian companies seeking to capitalize on developing market opportunities.

Canadian exporters have excelled in the U.S. market for many years, but developing markets are an important destination for the export of Canadian goods, services and investments. And EDC's expertise can help you open doors and lessen the risks. ■

A. Ian Gillespie

A. Ian Gillespie, C.I.T.P.

ExportWise
Winter 2004

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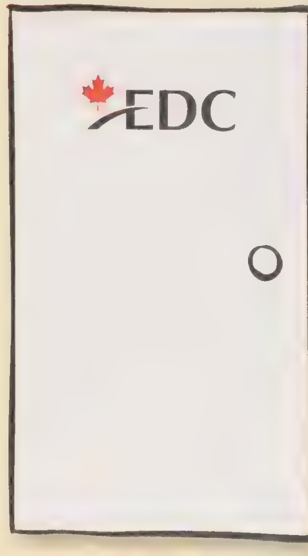

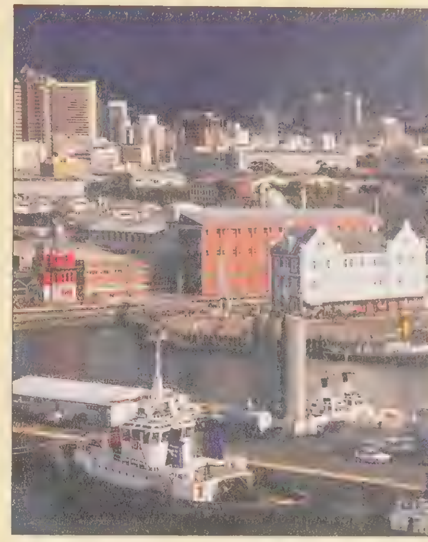

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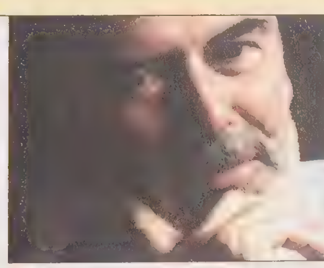

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Cover Photo: Martin Lipman (inset) / © Getty Images (background)

CPC Agreement No.: 40063481
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When Every City in the World is Your Oyster

BY **BRENDA BROWN**

No matter how modern or antiquated, all cities have three things in common: they need clean water, efficient transportation and proper sanitation.

"And that spells opportunity for Canadian exporters," says Douglas Langley, Vice-President of Delcan Corporation's Environmental Division. Langley knows of what he speaks. Delcan has three lines of business, all of which are in high demand by municipal and regional governments around the world: project management, systems integration, and civil engineering and architecture. In its 50-plus-year history, Delcan has delivered transportation systems, communications networks, municipal roads and transit, water supply and sewage treatment, manufacturing facilities, and commercial and residential developments across the United States, Africa, Hong Kong, Taiwan, Venezuela, El Salvador, Israel and Greece.

"When you think that every city in the world is potentially your customer, then you can see the endless possibilities. The challenge or impediment to doing business with governments at this level, however, is that you're not always sure whether, in the end, they can or will pay," says Langley.

In some countries, it's a challenge to get realistic credit information for regional and municipal governments and many are prohibited from entering into foreign debt (this can only be done at a national or central bank level where there are many competing interests). Then there's the issue of "hold backs" – a standard practice where final or partial payments are withheld until after the work is completed.

"The challenge or impediment to doing business with governments at this level, however, is that you're not always sure whether, in the end, they can or will pay."

"In countries such as the United States, where the legal framework is more established, you have the option of going to court if you have a problem," says Langley. "It's less straightforward in developing markets. I know of several cases where the supplier was in the right, but had to walk away because the government in question didn't want to be embarrassed by its mistakes."

So what do you do to protect yourself and still take advantage of this wealth of opportunity? For companies like Delcan, there is no better teacher than experience, says Langley.

Over the years, Delcan has developed a systematic approach to its decision making. First, it has an A-list of countries where they feel comfortable doing business. They make this assessment by looking at a country's business practices (comparing them against Delcan's integrity model) and political and financial stability.

Langley explains, "Delcan has always espoused the use of ethical business practices and responsible social policies in all aspects of its business, internally and externally, in every country in the world where we operate. The Board of Directors of Delcan has passed a motion in support of Canadian federal anti-corruption legislation which rejects unethical practices in any form."

Delcan employees are assisted in sustaining this positive approach through a series of statements and guidelines. These include specific policies in the Employee Manual given to every employee, a Country Focus List which limits the number of countries where the company will operate (excluding those with a high propensity for corruption), and an International Opportunities Review Committee chaired by the President that screens new business development opportunities.

"In this sector, there are more opportunities than we could possibly deal with. Having a Country Focus List makes our first level of decision making easier so we can then turn our attention to determining whether we have the financial capability to take on the project," explains Langley. This often involves partnerships with EDC and private local banks which finance the local components of these projects.

"Countries with developing markets often have highly skilled engineers, for example, but lack project management expertise and money. We bring that expertise to the table and help facilitate the financing. In the end we all win; we get the business and the host country gets the work done as well as the transfer of some of our project management expertise into their local community," adds Langley.

Using local people also means you need a strong experienced local contractor to execute the civil works components, advises Langley. "We undertake a thorough assessment of that partner, including their experience and qualifications. This is done through intensive personal interviews and by reviewing their past projects. Over time, you build trust – an essential ingredient to doing business at this level."

EDC and S&P Develop New Municipal/Regional Risk Assessment Tool

When considering lending to municipal and regional governments, organizations such as EDC typically rely on credit ratings issued by the major international credit rating agencies. Unfortunately, however, most municipal and regional governments throughout the world, particularly in developing markets, do not have such ratings. In order to address this gap, EDC has recently signed an agreement with Standard & Poor's (S&P), one of the world's leading credit agencies. For non-rated borrowers, S&P will undertake a transaction-specific credit assessment when the regional or municipal government wants to borrow up to US$5 million from EDC for projects involving Canadian exporters. The cost to the government being assessed will be substantially lower than the cost of a full credit rating.

"In the past, we relied on a guarantee from the country's central government before agreeing to provide financing for projects at this level," explains Lorne Cutler, EDC's Regional Manager, Central and Eastern Europe, and the person who originated the idea for this agreement. "However, responsibility for services such as water and sanitation is being increasingly shifted to municipal and regional governments. Many of these governments don't have recognized credit ratings, which makes it difficult for us to assess the risks. S&P will now be able to provide us with those assessments."

For more information, contact Lorne Cutler at lcutler@edc.ca or (613) 598-2745.

Canadian Service Companies

BY **DENNIS** AND **SANDI JONES**

The American economy has a big appetite for services, and it's a natural market for Canadian companies who have workers they can send across the border. Moving people into the United States, however, often involves complex immigration issues. In this article, we'll focus on the construction industry to examine how such issues affect Canadian companies who export services rather than goods.

Setting up shop

It's significantly easier to get your people into the United States if you first establish a business presence there. One common option is to set up a U.S. corporation; this is complicated, so obtaining expert legal assistance is essential. Then, of course, you need to land that first contract. Once you do, the time has come to start sending your people south.

People problems

That sounds simpler than it is. In fact, cross-border movement is becoming a difficult issue for the Canadian Construction Association (CCA) and its member enterprises, who represent an industry that employs at least 880,000 people and contributes $134 billion to the Canadian economy every year.

Among CCA's concerned members is Vector Construction Group of Winnipeg, whose Vice-President of Operations is Bob Spriggs. "Getting Canadian workers into the United States has always been a challenge," says Spriggs, "and one of the problems is time. When you take on a project, timely access to people is critical, and long processing times to have people cleared can be a barrier."

in the United States

And in certain situations, says Robert Grenier, processing can take well over a month. Grenier is an immigration attorney with the American law firm of Paul, Frank and Collins, and cites the example of the H-2B classification, which allows Canadian labourers to work temporarily in the United States.

"Getting an H-2B can be cumbersome," Grenier notes. "First, you go through a temporary labour-certification process at the local level. Next, you file a petition with U.S. Citizenship and Immigration Services. And then you have to wait another 35 to 60 days for the petition to be processed."

What if you can't wait that long? "Most companies use premium processing for the H-2B," says Grenier. "It reduces the processing time for the petition to 15 days. The additional fee is US$1,000, but you pay this for each position, not for each employee in the position."

There are also other classifications. Applications for these are processed at the U.S. border and include the B-1 for business visitors, the TN-1 for NAFTA professionals (engineers and scientific technicians, for example) and the L-1 for intracompany transferees (including executives, managers and "specialized-knowledge" personnel). Choosing the most suitable classification for your workers and then getting their permits cleared can be complicated. "A firm trying to do this on its own," observes Spriggs, "is going to find it difficult. You really need expert legal advice."

Doing it the hard way

If permits aren't issued in time, it can be tempting to find other ways to go ahead. This can lead to difficulties, according to Ron Legere, Contract Manager for Industrial Cold Milling Ltd. (ICM) of Dartmouth, N.S.

After securing a micro-surfacing contract in Maine, ICM had used H-2B premium processing to obtain its worker permits, but the permits were late in arriving. Under extreme pressure to begin work, the company then decided to hire Maine residents as trainees. The trainees would be assigned to learn from ICM Canadian personnel at the job site, which was permitted as long as the ratio of Canadian instructors to American trainees was at least 1:1, and as long as the Canadians didn't actually operate the equipment.

On this basis, the company brought its machinery and Canadian personnel into the United States. Unfortunately, it was unable to find enough local labour and couldn't reach the critical 1:1 ratio. Work started anyway, with Canadians operating the equipment out of necessity, but then, says Legere, "The American authorities showed up and escorted us out of the country. We had to leave the equipment by the side of the road. They wouldn't even let us touch the safety pylons."

The company managed to return to Maine to finish the job, but had to operate under difficult conditions. Legere's advice? "Make sure you apply for your permits early. And while you're waiting for them, be on the phone every day to check on their progress."

Looming demographics

In its difficulties with finding qualified American workers, ICM got a taste of a growing problem in the American and Canadian construction industries. It's a demographic one, says Barry Brown, President of Maple Leaf Construction in Winnipeg, and it's going to get worse. Brown should know: he's the CCA's representative on a task force studying cross-border worker movement.

"As the people working in Canadian and U.S. construction get older," Brown observes, "the labour pool is shrinking. But at the same time, we need more skilled labour. This is becoming a big problem. The only way we can deal with it is to let people cross borders more easily."

As an example, Brown points to the Alberta oil sector. "We have highly trained professionals who maintain the refineries during shutdown periods. That lasts for three or four months a year; then a lot of them go on employment insurance or find other work. U.S. refineries also shut down, but not at the same time we do. Wouldn't it make sense to employ these professionals all year round by letting them work in both countries?"

It makes perfect sense, but progress is slow. "Our task force recently met in Vancouver," says Brown. "We discussed the cross-border issue again, and we all agree that it needs to be solved. But I think it will take another two or three years for the issue to become topical."

So, for the moment, if you're exporting services to the United States, find a good U.S. immigration lawyer. And send those permit applications in early!

Where to get help

To obtain the Canadian Construction Association's *Guide to Doing Business in the United States*, contact your local construction association.

For a free copy of EDC's booklet *Doing business with the United States: A guide for Canadian exporters*, visit www.edc.ca/USrisk.

Flying High With MicroPilot

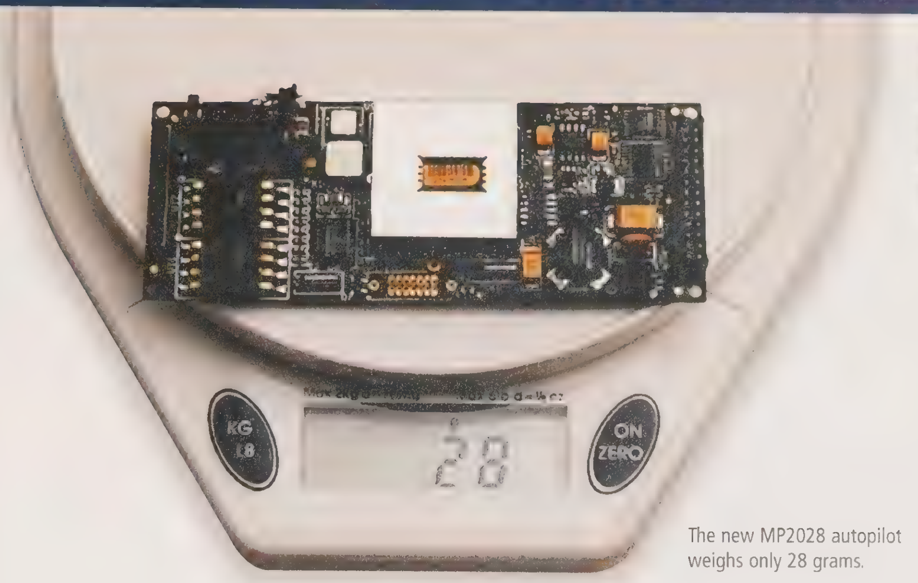
BY **IAN M. CLARKE**

It came like a bolt out of the blue. Frustrated by the wasted energy it took for a tow plane to pull his glider up high enough to catch the right air currents, MicroPilot's President and founder decided to apply his engineering background to his passion for flying.

The Snake Eye, a back-packable UAV developed by BAI, uses a MicroPilot autopilot and Northrop Grumman software.

The result was MicroPilot, founded in 1995 and located in the small town of Stony Mountain, just outside of Winnipeg. The 15-person company now boasts annual sales in excess of $1.5 million.

"Most of the energy is used to make the tow plane climb, not the glider. So I thought the best way to develop and test a solution would be to create an unmanned tow plane," says President and Chief Technology Officer Howard Loewen. He then began to build sophisticated electronics equipment based on the global positioning system (GPS) to remotely control a plane.



The new MP2028 autopilot weighs only 28 grams.

MicroPilot's global market niche was born: miniature autopilots for the unmanned aerial vehicle (UAV) market. NASA has employed MicroPilot autopilots across a variety of applications. "NASA does a lot of research work," says Loewen. "For instance, they were conducting the Iturralde Crater Expedition in South America, attempting to determine the history of the crater. But it was difficult to get close to it. So they installed sensors on a UAV, then flew it 10 miles towards the crater, took their readings, then returned it to home base."

Loewen suggests that with recent military turmoil, the demand for UAVs has increased. "It's certainly raised the profile for UAVs. In fact, globally, there are many organizations with significant UAV programs underway."

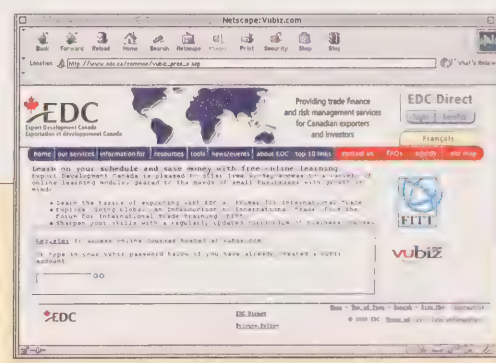
Most of MicroPilot sales come from outside of Canada. "We operate in a specialized market," says Loewen. "It's interesting that the bulk of our sales leads come from the web, which is perfect for a small company like ours. Typically, engineers will go to the web to search for components, and because we occupy such a niche market, we place well in search engines."

For organizations such as MicroPilot, which must confront the challenges of international contracts and financing, export credit services become part of doing business. "We're often in situations where we have to discuss credit terms with clients," says Loewen, "and that's where EDC is really the only way."

With a roster of global customers and new product releases, MicroPilot appears destined to continue flying high. ■

COMPANY PROFILE

Company: MicroPilot
Business: Miniature UAV autopilots
Location: Stony Mountain, Manitoba
Employees: 15
Annual Sales: $1.5 million
Exports: 90%
Export Markets: United States, Europe, Asia, Pacific Rim
Contact: www.micropilot.com



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The Arts

Building Canada's Brand Outside Our Borders

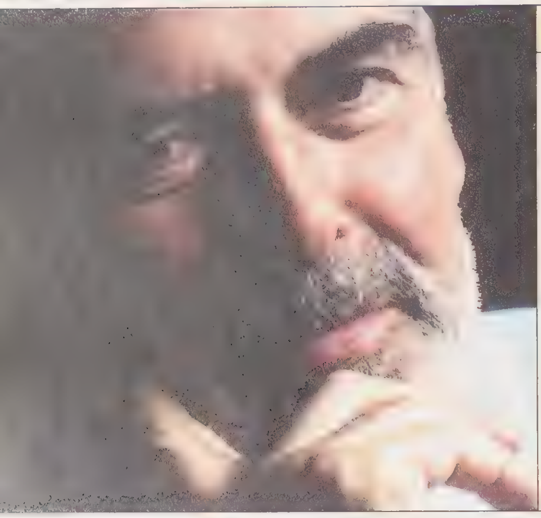


Photo: Étienne Morin, *Le Droit*

BY **PETER A. HERRNDORF**

Canada's cultural sector is a vibrant component of our national economy. In addition to making a significant contribution to Canada's prosperity, it plays a tremendous role in shaping our identity as a nation, enhancing both our global reputation and our trade position.

Each year, our cultural sector employs more than 640,000 Canadians and contributes an estimated $22 billion to our economy. Of this, exports represent $2.6 billion.

While our artists may not be our largest "export," they are arguably the most important because they are ambassadors for Canada. If you ask people from other nations what they know about Canada, I suspect few are able to name many of our politicians or business leaders. In contrast, I find most people recognize many of our Canadian singers, writers, comedians, actors and other artists.

The arts are what set Canada apart as a nation, increasing our visibility in the expansive global market. Now consider the fact that jobs and prosperity are more closely linked to trade in Canada than in any other G-7 nation. It stands to reason that anything that can give us a trading edge is worth exploring. The arts help give us that edge.

The importance of the arts was greatly publicized by the Royal Commission on Arts, Letters and Sciences, which was conducted during the postwar years in Canada. The resulting Massey-Levesque Report of 1951 caused a cultural revolution that has steadily gained impetus.

This Report argues that Canadian culture plays a critical role in our nation building, and that all levels of government have an obligation to nourish Canada's intellectual and cultural life. As a result, the federal government established, in rapid succession, the Canada Council, a National Library, and CBC Television. Ultimately, this Report yielded a cultural framework that paved the way for several generations of gifted, innovative and fiercely independent Canadian artists.

Today, there is more artistic talent and creativity in this country than at any other time in our history. Our artists have the skill, imagination and commitment to create powerful and original work, and they have the drive and energy to compete with the best in the world. They symbolize, in many ways, the changing character of this country – more dynamic, more adventurous, and more of a player on the international stage.

While our artists may not be our largest "export," they are arguably the most important because they are ambassadors for Canada.

As an export-dependent country, it is heartening to know that our artistic riches can hold their own with Canada's other key exports, and that our exceptional Canadian artists greatly enhance Canada's profile abroad. ■

Peter A. Herrndorf is President and CEO of the National Arts Centre, Canada's pre-eminent showcase for the performing arts. The NAC Orchestra's recent tour to the United States and Mexico was sponsored by EDC.

Opening Doors to Developing Markets

BY **DENNIS** AND **SANDI JONES**

This issue of *ExportWise* launches a series that investigates how you, as a Canadian exporter, can enter and succeed in developing markets around the globe. These practical, "how-to" articles will follow the evolution of an export deal from market entry to post-sale activity, showing you how the whole process works. This year-long series will cover the following topics:

Winter 2004

Finding the right representative
Do you need to set up a local office? Hire an agent or distributor? If you do, how do you make sure you're choosing the right person? EDC's Regional Manager, China, will give you the answers you need.

Checking out your buyer
How do you check a buyer's credentials? What should you look for? Who can help? An expert on risk assessment and international credit will introduce you to this crucial aspect of exporting.

Spring 2004

Settling the contract
You've found your buyer and now it's time for the contract. In this article, contract and claims specialists will tell you what you should negotiate and how you can protect yourself.

Coping with licensing and customs
What is a license? How do you deal with customs? How does international shipping work? International trade law specialists speak to these issues so you'll know what to expect.

Summer 2004

Meeting your commitments: Projects
Companies delivering on large-scale foreign projects have to deal with special issues. Representatives of international engineering firms discuss the challenges presented by such projects in developing markets.

Meeting your commitments: Sale of goods
In this article, agrifood and consumer goods sectors will be used to illustrate issues common to the export sale of goods. Trade specialists will tell you about customs, labelling, shipping and more.

Fall 2004

Dealing with product liability
What is product liability? Do you need it? Why? This article will examine the commitments you need to make when exporting a product, as well as methods of protecting yourself against product liability claims.

Keeping your customers
To build on the business you have, you need happy customers. Customer relations specialists will talk about networking, showcasing your products and offering value-added services that will bring your customers back for more.

Finding the Right

BY **DENNIS** AND **SANDI JONES**

Venturing into a developing market can be a rewarding experience. It can also be nerve-racking, especially when that market has vastly different social and business cultures, languages and government regulations. That's when having the right representative can spell the difference between success and failure.

More than a middleman

Establishing your own local office instead of using a representative is always a possibility, of course. But it's expensive and is rarely needed early in an export initiative. And in some countries, it's not even an option – you can't operate in their markets except through a state-approved representative.

But even where representation isn't mandatory, it can still make good sense. A representative will be familiar with local conditions and can help you find buyers, arrange distribution channels, handle documentation and provide after-sales service. And if your deal involves complex implementation contracts, a representative is almost a necessity.

From agents to trading houses

There are three basic types of representatives, but the boundaries among them are blurred. A big import-export firm, for example, may include them all under one roof.

- An *agent* is an individual or firm you employ, usually on commission, to sell your product or service. This gives you the most control over how it's handled.
- A *distributor* is a firm you choose for its distribution channels in the market; it buys your product from you and

Representative

then sells it on. This has obvious advantages, but mistakes by the distributor can affect your product's reputation.

- Full-service *trading houses* handle multiple aspects of exporting, such as market research, transportation and advertising. Some firms buy your product outright, while others may act as agents on commission.

In choosing which type best suits your needs, there are no hard and fast rules – it depends on the business sector you're in and on the nature of your product or service.

Choices, choices

The person or firm that represents you must, obviously, be both effective and reliable. "But before you decide on a representative," says Alison Nankivell, EDC Regional Manager for China, "you have to understand what market you're going after and how that market is segmented – by industry, region, political or economic divisions. Then you pick a representative whose capabilities match your market segment. If your product is advanced technology or manufacturing equipment, for example, you'd want a representative who has a technical as well as a sales background."

One way of finding potential representatives, says Nankivell, is through contacts at trade fairs. You can also check with sources such as the Canadian Trade Commissioner Service, which has officers in Canadian embassies and consulates abroad. Trade associations and local chambers of commerce (both American and Canadian) are also helpful. You might also consult other suppliers and companies in your sector to obtain information about particular representatives. Investigative trips to potential markets can be useful as well.

Treading warily

If you have an attractive product or service, you may be approached by firms wanting to represent you. But don't sign up with the first to come along, even if they have a sterling reputation. You'll probably make a better choice if you first find out what other options exist.

Be even more careful of people who make unlikely claims of past success, or who push you to sign an agreement on the grounds that only they can complete the deal. And if you're entering a large market such as China or India, don't give it all to a single representative. Instead, split it into zones of responsibility and find an effective representative for each zone.

You should also try to discover the representative's relationship to your potential customer. If they have a bad personal relationship, for example, the customer might prefer to deal directly with your company. In such a case, signing with the representative would work against you.

Finally, it's important to understand a potential representative's approach to business integrity. If he or she offers a deal that doesn't meet your standards, perhaps because it involves payments of doubtful legality, turn it down. If you don't, you risk not only severe damage to your company's reputation, but also civil litigation, criminal prosecution, monumental fines and even imprisonment.

Specifics for success

But careful planning can lead to excellent results, as the experience of a Canadian telecommunications firm demonstrates. "The company's senior management carefully investigated the market segments that drove their business in China," Nankivell says, "and discovered that these segments differed significantly in how business flowed into them. They then found agents to take specific responsibilities for those segments. This allowed them to keep all their operations in Canada, while using agents to maximize sales to China."

In short, the right representation can contribute a great deal to your export success in a local market. So, before you start knocking on doors yourself, be sure to find out what an agent, distributor or trading house can do for you. ■

Checking Out Your

BY **DENNIS** AND **SANDI JONES**

You've found a potential buyer for your product or service in a developing market. But you're new to exporting and you know almost nothing about this firm. How do you make sure you're dealing with a reputable customer?

Pointed questions

If you're working through a representative such as an agent, they may undertake the appropriate due diligence for you. Failing that, you'll need to ask the questions yourself. Among the basics are:

- How long has the buyer been in business?
- Is its financial record clear of irregularities?
- What reputation does its management have?
- Do other suppliers give it a good credit report?

"The more you know about a buyer, the better," says Ken Sunquist, Director General of the Trade Commissioner Service of the Department of Foreign Affairs and International Trade. "But checking out a buyer goes considerably deeper than just finding basic credit information. You shouldn't really be looking for a one-off sale – you should be looking for a partner for the future. Naturally, you have to be sure that your buyer is credible. But you should also be looking for common values, so that you and the buyer will be able to work together in the long term."

This implies more than a quick check with D&B. You need answers to questions such as:

- Might the buyer steal your intellectual property (IP) and become a competitor?

Buyer

- Is the buyer after your pricing information so he can talk to your competition?
- Do you and the buyer have similar business standards and ethics?
- Why would this buyer make a better partner than somebody else? Better distribution channels? Superior financing? Higher technical ability?

Mining for information

Fortunately, a lot of the relevant information is available for free. The federal government's Trade Commissioner Service is a key resource. Another is the International Trade Centres network operated by Industry Canada, and EDC's EXPORT *Check* service is also an excellent reference.

Your Canadian bank may also have a correspondent bank that can report on the buyer's reputation. Or you can ask the buyer if they deal with another Canadian company; if they do, a call to that company might be informative. Similarly, companies you've dealt with in the past may have done business with the buyer and may furnish references.

You can also ask banks in the buyer's country for credit information. However, it's bad form in some countries to speak ill of a domestic company. So treat a local bank's opinion with some reserve.

If you're willing to spend money, there are consulting firms and credit reporting agencies both abroad and in Canada that will help you check out a buyer. This can be expensive, but may be worthwhile if it uncovers serious risks for your company.

Risky, risky

A Canadian company's information and processes can often be considered more valuable than its actual product or service. Misappropriation of such IP, through reverse engineering or outright theft, can be a serious blow. Consequently, you have to ensure that a buyer really does want a suitable relationship with your company and won't walk off with your IP once the contract is signed. Countering such risks may require elaborate precautions – one Canadian business had to place a trusted employee in a buyer's plant to keep the buyer from poaching a key manufacturing formula.

In some countries, according to Sunquist, IP protection is a real problem. "No market is all clean or all dirty," he notes, "but some lack regulatory frameworks to safeguard against IP loss. The Trade Commissioner Service is constantly on the lookout for companies that are abusing IP; we report them to their own officials and try to get action taken against them. As a result, we're well placed to help Canadian companies understand the IP risks of a particular market."

Help for changing times

Two decades ago, Canada had about 1,000 exporters – almost all were big companies. Now there are 20,000 exporters, and the vast majority are small- to medium-sized enterprises, who need knowledge brokers to help them understand their new markets. According to Sunquist, this is where organizations like the Trade Commissioner Service come in: they help Canadian companies take a global approach, not just to sales but also to international business development. "It's more than a search for customers," he observes. "It's also about finding investors, technology sources and partnerships to develop and expand your company. And the best part is that Canadian companies nowadays are highly competitive in doing all those things – not just in North America, but anywhere in the world." ■

Where to Find Leads

You need to have buyers, obviously, before you can check them out. Fortunately, there are plenty of resources that will help you locate customers.

A major one is ExportSource, the web site of Team Canada Inc (TCI). Go to **www.exportsource.ca** and click the Trade Leads link to get started. Then try the Sector and Market Reports link for leads about opportunities in dozens of countries. Or to speak to an information officer, call TCI's Export Information Service at 1-888-811-1119.

Tracking market indicators is another way of identifying possible customers. EDC offers EXPORT *Market Insight*, an online intelligence service that covers political and economic developments in more than 200 Canadian trade markets. To subscribe, go to **www.edc.ca/e-reports**.

You can also visit the Canadian Trade Commissioner Service's site at **www.infoexport.gc.ca** and register with its Virtual Trade Commissioner. This personalized web service can provide market information and business leads to match your international business interests.

Industry Canada's Trade Team Canada Sectors (TTCS) at **www.ttcs.ic.gc.ca** provides links to 13 key Canadian industries including service industries. Industry Canada also provides a searchable database of statistical indicators for export markets. Go to **www.strategis.ic.gc.ca**, click Exporting and then the Trade Data Online link.

Finally, the CanadExport online newsletter covers trade opportunities, export programs, trade fairs, business missions and much more. Go to **www.canadexport.gc.ca** to obtain your free subscription. ■

Agropur Shares its Secret Recipe

BY **JANE DALY** AND **JULIE HARRISON**

If there's one rule that never changes when it comes to exporting, it's that markets are always changing. For Anthony Oetelaar, Vice-President of International Sales for the Industrial Division of Agropur, it means that finding representatives and checking out buyers in developing markets is an ongoing process. And Agropur is just as meticulous about this process as it is about ensuring the quality of its products.

Agropur is a dairy products cooperative that includes divisions for fluid milk (Québon, Natrel, Sealtest), yogurt (Yoplait), fine cheeses (Oka), and industrial sales. The Industrial Division manufactures cheese and milk powders that are sold to retailers, food service companies, and further processors – businesses that package cheese under brand names, and industries that use milk powders in their products, such as bakeries and chocolate manufacturers.

The main markets for Agropur's Industrial Division have changed substantially in the past year, due to a recent World Trade Organization ruling that limits exports. These limits are based on either value or volume – whichever is reached first. "If the subsidized portion of the export goes up, then the volume must go down," says Oetelaar. "Because of this ruling, we've had to let some of our cheese markets go. Now our strategy is to evaluate new opportunities. We are trying to create different blends that use the solid non-fat portions of milk, which are currently surplus in our manufacturing," says Oetelaar.

One of the main differences in dealing with a distributor versus an agent is that the former will usually want an exclusive agreement immediately.

Sources for picking a good agent

Oetelaar says it's critical to find a country that has a healthy demand for your product, and to then select an agent. "To penetrate a market quickly, we look for an agent with good contacts to large buyers. You have to work with someone who has a good grasp of the market, speaks the language, and really knows and understands the buyers." He adds, "An opportunity can be lost trying to do it yourself."

The best avenue for finding an agent is through contacts and word of mouth, notes Oetelaar. "When you start developing contacts or participating in third-party trading, and you have several different suppliers like we do, they can often recommend an agent who has done good work for them," he says. "Sometimes different government departments or embassies can also give you references."

Agent or distributor?

While references help, Oetelaar has found that solid research is also required. "In every market, you have to make sure you know how they want to deal, and sometimes you think it's through an agent and then you find out it's not," says Oetelaar. "In certain countries, rather than an agent, you need a distributor who buys your product and then remarkets it." Agropur Industrial uses agents in Korea, Libya, Mexico, and South America, while in Europe and the United States, it tends to deal directly with the buyer.

One of the main differences in dealing with a distributor versus an agent is that the former will usually want an exclusive agreement immediately. Oetelaar cautions that one could get stuck in a long-term agreement with a distributor who doesn't do a good job. "You may find the distribution network is not as good as he claimed, or that your products are not compatible with his product line," says Oetelaar. However, he points out that the exclusive agreement also presents a risk to the distributor, in that he could get stuck if your company cannot meet his supply demands. "It's therefore best for both parties to take the time to find common ground and ensure a win-win situation," he advises.

When dealing with agents, Oetelaar doesn't recommend an exclusive agreement within the first year. "We try to develop a really solid working relationship first and then later, if both parties are comfortable, we will proceed to an exclusive agreement."

Checking out buyers

While Agropur Industrial uses agents to help find buyers, Oetelaar says it is important to work closely to find the best buyers. "With any new buyer, make sure that you properly evaluate him," he says. "The bigger the opportunity, the bigger the risk, so analyze everything, measure it well and then secure your deal."

To help secure its own deals, Agropur Industrial follows an internal process of approval. "We try to put the deal together with contracts that link both parties with proper coverage on payment, which for us means EDC coverage and/or a letter of credit to back it."

An emerging buyer trend that Oetelaar advises watching for is the growing centralization of purchasing for large companies. While this trend can make checking out your buyer a lot simpler and less time consuming, it can make competition even tougher. "A lot of the big buyers, like Nestlé, are centralizing all their purchasing through one office for all their different locations around the world."

Communication builds loyalty

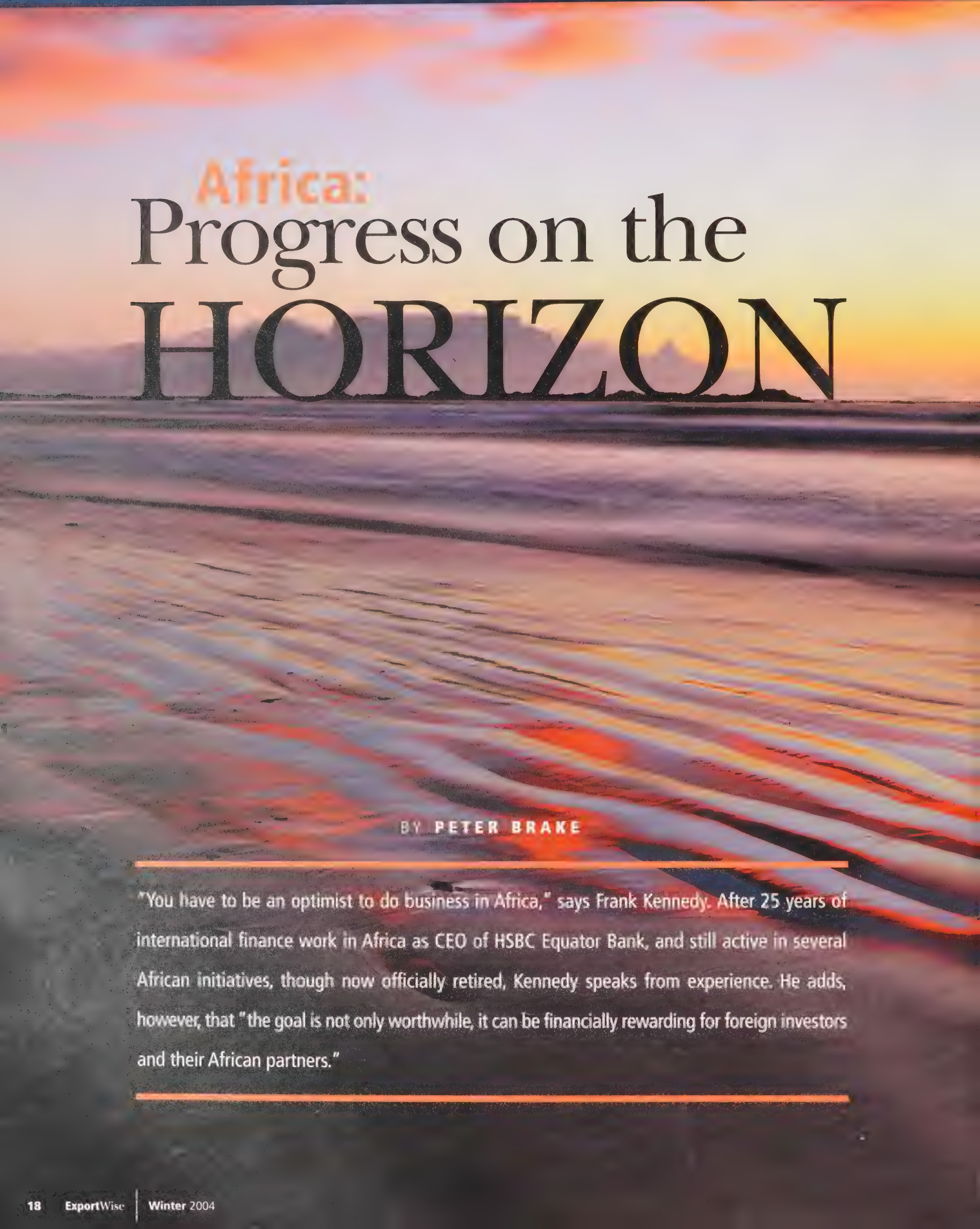
Once a buyer comes on board, Oetelaar uses personal communication to build and keep strong relationships. "We try to go once or twice a year with our agents to meet our buyers face to face," he says. "They truly appreciate meeting their official supplier."

Regular emails and phone calls help keep the lines of communication open. "It can also be tremendously helpful to speak the language of your buyer," adds Oetelaar. Several of Oetelaar's staff speak more than one language, and one speaks seven. "When you can talk in their language, it changes the whole dynamics of the relationship with your buyer," says Oetelaar. "People are happy to see that you're making the extra effort."

As one final word of advice, Oetelaar cautions that building buyer loyalty doesn't necessarily take the place of competitive pricing. "Remember that you're competing in a global market that is continuously changing." ■

COMPANY PROFILE

Company: Agropur
Business: Dairy products
Location: Granby, Quebec
Employees: 3,500
Annual Sales: $1.8 billion
Exports: 7–8%
Major Export Markets: Caribbean, Peru, Libya, U.K., U.S., Asia (including Japan, Korea, China), Mexico
Contact: www.natrel.ca



Africa: Progress on the HORIZON

BY **PETER BRAKE**

"You have to be an optimist to do business in Africa," says Frank Kennedy. After 25 years of international finance work in Africa as CEO of HSBC Equator Bank, and still active in several African initiatives, though now officially retired, Kennedy speaks from experience. He adds, however, that "the goal is not only worthwhile, it can be financially rewarding for foreign investors and their African partners."

Overwhelmed by strife, civil wars, famines and epidemics, it would be easy to dismiss progress in Africa as ephemeral or non-existent. Africa's share of total global trade is a scant few percentage points. Investment flows to the continent have been less than 1 per cent of total global direct foreign investment. For both domestic and foreign business people, health and security concerns are real and costly. Coupled with political instability and widespread corruption, many of Africa's countries can seem impenetrable.

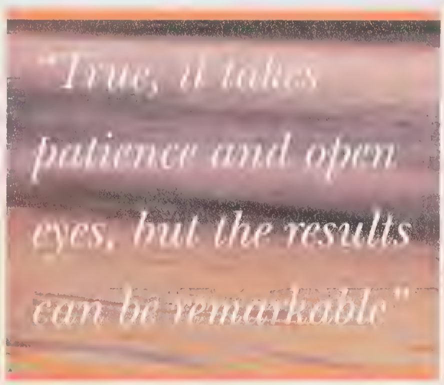
Yet there are several factors that point to progress on the horizon. The creation of the New Partnership for Africa's Development (NEPAD) in 2001 signalled that Africa's leaders are stepping forward to accept responsibility for the continent's problems and to forge new paths in economic, political and social development. NEPAD has reiterated that sustainable development is only possible with a commitment by African countries themselves to the principles of good governance, transparency, respect for human rights, and democratic ideals. This commitment also extends to the conduct of business, lobbying for adherence to the rule of law and operating in a socially responsible manner.

The developed world has recognized Africa's leadership commitment and provided a supportive response to the challenges ahead. The Africa Action Plan, championed by Canada when it hosted the 2002 G-8 Summit in Kananaskis, Alberta, is designed to support the goals of NEPAD by committing fresh resources to NEPAD-sponsored projects.

The Heavily Indebted Poor Countries (HIPC) initiative of the International Monetary Fund and World Bank has also received renewed funding commitments from the G-8. This will enable the offer of long-term debt relief, totalling $46 billion to as many as 26 countries, the vast majority of which are located in Africa. It is hoped that by freeing-up government revenues in Africa, action can be taken to address badly needed investment in infrastructure and social development.

Regional trading blocks such as the Southern African Customs Union (SACU) and the Economic Community of West African States (ECOWAS) have also shown renewed vigour in negotiations for free trade agreements with outside parties; SACU with the United States and ECOWAS with the European Union. While efforts to lower global agricultural tariff barriers have thus far failed, the topic as a whole has gained recognition as a vital mechanism for increasing Africa's export potential.

International financial institutions and export credit agencies are exerting their influence to ensure that issues like environmental and social impacts, human rights and anti-corruption are considered when channelling support towards private and public sector sustainable development.



The 2002 adoption of the Equator Principles – a set of voluntary guidelines signed by major banks for managing social and environmental issues related to project finance – clearly reinforces this trend.

For its part, Canada has followed up its leadership role at the G-8 Summit with two new funds: the $500 million Canada Fund for Africa and the Canada Investment Fund for Africa. The Canada Fund for Africa is designed to support the NEPAD objectives of peace, good governance, economic growth and the strengthening of African institutions. The Canada Investment Fund for Africa, managed by the private sector with a matching contribution of $100 million from the Canadian government, is intended to foster public/private partnerships to mobilize investment in commercial ventures.

Attracting Canadian private sector participation is often a hurdle. As noted by Anne-Marie Bourcier, Director General of the Department of Foreign Affairs and International Trade's Africa Division, "The yield on investment in Africa is often higher than anywhere else in the world. True, it takes patience and open eyes, but the results can be remarkable – both for the people of Africa, and for Canadian businesses."

Canadian exporters and investors can be encouraged by the spate of new African initiatives. "There are a lot of great opportunities in Africa. Canadian companies have achieved recognition for their awareness and support of sustainable development principles including good corporate responsibility," according to Bob Blackburn, Chairman of the Canadian Council on Africa and an executive with SNC-Lavalin, an engineering company active in Africa. "There are large consumer markets in Nigeria and South Africa and the potential for growth in the energy, mineral and agriculture sectors is just waiting to be unleashed by co-ordinated private and public sector investment."

Canada's reputation has been enhanced by the role of Canadian companies in managing the award-winning Mozal Aluminium Smelter Project in Mozambique. The creation of community outreach and development programs was regarded as vital in enabling the project to be finished ahead of schedule, under budget, and with an outstanding safety record.

Africa has long been the marginalized continent, notably absent from globalization trends. Development has languished despite the infusion of massive amounts of aid over the years. For Canadian business, Africa will remain a challenging place to do business. Yet African leaders and public and private stakeholders are showing a renewed will to implement strategies to overcome stubborn obstacles. These efforts may hold the best promise for an emergent Africa and lead to stronger trade integration with Canada and the world. ■

The Continental Divide

BY **PETER BRAKE** AND **JEAN-FRANÇOIS CROFT**

While Africa's countries are exceedingly diverse in terms of geography, culture and industry, the continent is often divided into three general regions: the Maghreb, the Economic Community of West African States (ECOWAS), and Southern Africa. Here, we take a closer look at Africa by exploring the economies and potential for Canadian trade within each region.

The Maghreb: Slowly but Surely

The Maghreb region of Africa, with its own distinct culture and history, is nestled on the Mediterranean Sea, separated from much of the rest of the continent by huge expanses of desert. This cluster of five nations is comprised of Algeria, Libya, Mauritania, Tunisia and Morocco. Border disputes between Algeria and Morocco, coupled with international sanctions imposed on Libya, have stymied past efforts at stronger economic integration. Recent developments, though, may present opportunities for Canadian business.

Algeria, profiled in the Spring 2003 edition of *ExportWise*, is a significant African market for Canadian exporters, particularly for the oil and gas and agriculture sectors. Newly won contracts for industrial pollution control systems, seismic research and the completion of several water treatment facilities have increased the profile of Canadian firms and their expertise in Algeria. Further expansion of Canadian exports beyond the key oil and gas sector is feasible but will require ingenuity, patience and a healthy risk appetite.

Libya, once a target of intense criticism by the international community, has announced its intent to restructure its economy, placing more emphasis on free market initiatives. The lifting of United Nations' economic sanctions against the country should help foster renewed economic growth in the next year. Despite past challenges, Canadian businesses are already active in Libya, notably in the oil and gas sector. Major engineering initiatives such as the Great Man-Made River Project, where enormous aquifers have been tapped to supply badly needed water to Libya's citizens and agricultural regions, are also benefiting from Canadian know-how.

> *Tunisia is probably the most successful and stable of the Maghreb countries.*

To the south west, Mauritania has enjoyed welcome developments on several fronts. Debt relief initiatives have eased financial pressures on the government, allowing for accelerated economic reform, including the privatization of state electricity utilities. Results from offshore oil and gas exploration are promising, but are unfortunately in regions where ownership is disputed by Morocco. Favourable resolution of territorial issues could enable Mauritania to become an oil exporting nation by the latter part of the decade. In the meantime, Canadian exporters should take careful note of the increased demand for oil and gas exploration, drilling technology and services, 3-D seismic surveys, and geomatics. Ongoing caution is required as social unrest amongst Mauritania's restless and largely unemployed young urban underclass threaten to undermine its economic progress.

Tunisia is probably the most successful and stable of the Maghreb countries. It is well regarded by international financial institutions for its prudent financial management and stable political environment. Growing manufacturing and textile industries, combined with a significant hydrocarbon sector and developed agricultural base, have given Tunisia one of the more diverse economies with consistent growth over the last decade. Diversification of Tunisia's economy has also opened doors for Canadian finished goods, including transportation equipment and a breakthrough in pharmaceutical product sales. Rising competitive pressures, as Tunisia moves closer to free trade with the EU, mean Canadian companies will have to focus on quality and value-added content to maintain market share.

Morocco is an important agricultural export market for Canada, with commodities such as wheat and other agrifoods forming the bulk of Canada's exports in 2002. Desertification and water degradation threatening Morocco mean there is a notable need for enhanced environmental technologies and services. Canadian companies – well-respected for their expertise in water treatment and waste disposal management – should find numerous opportunities in this region, particularly those companies who can conduct business in French.

The Maghreb's potential for Canadian exporters and investors will continue to hinge on the speed of new developments unfolding in the region. Engagement with the international community will play a key role in how things unfold. Emerging Canadian successes, though, are evidence that such developments are headed in the right direction.

The Economic Community of West African States (ECOWAS): Weighing the Risks

West Africa is largely comprised of the nations belonging to the Economic Community of West African States (ECOWAS). Formed in 1975, its members include Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

With a population of roughly 200 million, this region is enormous, with varied economic resources and potential. Regrettably, realizing this potential has been stunted by past mismanagement or unrest. The unlocking of mineral and agricultural riches is critical to this region's future economic growth. The development of partnerships between international financial institutions and investors aimed at funding sustainable private sector investment, health initiatives, and basic infrastructure offer new opportunities for Canadian expertise and technology.

The region's diversity is best illustrated by the two leading ECOWAS nations: Nigeria and Senegal. Canadian businesses have enjoyed a modicum of success in the oil-rich nation of Nigeria, with exports of goods and services reaching a peak of $107 million in 2001, before falling in the past two years to $45 million. Future opportunities will tend towards Canada's traditional strengths in energy, telecommunications, oil and gas, engineering consulting, and the environment. Experienced Canadian exporters recognize that trade with Nigeria is prone to a variety of pitfalls, with corruption being a major concern. Yet there is also the potential for a corresponding high rate of return on investment if risks can be mitigated. Letters of credit issued by third country banks have proved to be useful methods of mitigating some of the real payment risks associated with this market.

While Senegal has a smaller economy than Nigeria, it has experienced none of the economic dislocation affecting its oil-wealthy neighbour. Benefiting from the best infrastructure in the region, this strategically located country of nine million people has positioned itself as the trading hub of ECOWAS. Transportation, railway and telecommunications infrastructure are a priority for Senegal, keen as it is to maintain its central role in the region.

In neighbouring countries, large phosphate deposits and potentially significant reserves of gold and copper along the border between Mali and Mauritania offer new mining opportunities for Canadians. As well, the agricultural sector is in need of technology and expertise to help overcome variable climatic conditions.

Competition is fierce, so Canadian products need to stand on their own merits.

The ability of Canadian exporters to conduct business in French can be an advantage in the francophone nations of West Africa: Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Niger, Senegal and Togo. Language ability alone, though, will not guarantee business. Competition is fierce, so Canadian products need to stand on their own merits.

Much of the rest of West Africa echoes the same themes of incremental progress, great potential and damaging instability. For example, countries such as Ghana and Mali have targeted the privatization of state-owned corporations and water and sewage services as part of their economic liberalization and development efforts. In contrast, Côte d'Ivoire, Liberia, Sierra Leone and Guinea-Bissau remain mired in internal strife and instability. It should be noted, however, that where there is great potential payoff, such as with offshore oil and gas exploration in the Gulf of Guinea, foreign investors have found it worthwhile to manage the risks.

There are promising signs of progress and renewed commitment amongst ECOWAS members to overcome the endemic social and economic obstacles that hold back development. Canadian exporters interested in this region can be encouraged by these changes, but should nonetheless tread carefully.

Southern Africa: Untapped Treasures

The vast expanse of Southern Africa is a treasure trove of largely untapped resources. Stretching from the Congo to Angola, Mozambique to South Africa, this diverse terrain holds immense deposits of sought-after riches. Gold, diamonds, coal, oil and gas, uranium and copper are all under exploration. Development of these resources is helping to fuel the area's economic growth, forging trade and investment linkages worldwide. Canadian companies are actively taking part in this engagement in Southern Africa with Canada's export trade reaching approximately $400 million annually.

Southern African trade is dominated by two organized economic blocks: the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Formed in 1992, SADC's member countries include Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe. South Africa joined SADC in 1994, and the addition of its more advanced economy has helped propel regional harmonization and co-ordinated sustainable development. The result is a broader market for the sale of a wider spectrum of Canadian goods and services.

In contrast with its younger cousin, SACU is the oldest customs union in the world, its original form dating back to 1910. With membership comprising South Africa, Botswana, Lesotho, Namibia and Swaziland, it is the largest trading block in Southern Africa and has recently entered free trade negotiations with the United States. Lower American trade barriers will encourage some industries to move production facilities to Africa.

South Africa leads as Canada's top export destination in this region.

When it comes to considering export market candidates in the region, the country of South Africa leads as Canada's top export destination, importing $250 million worth of goods last year. South Africa is an ideal entry spot for many foreign firms interested in expanding their business throughout this region. Neighbouring Angola, Mozambique and Botswana have all posted recent growth records of more than 8 per cent annually. Canadians have won contracts in the mining, geophysical, telecommunications and transportation sectors.

Many of the significant mega projects in Southern Africa have benefited from Canada's extensive participation. The successful completion of the Mozal Aluminium Smelter Project in Mozambique has been a showcase for Canadian expertise in engineering and project management. Promising mineral discoveries in Namibia and Tanzania have meant increased exploration activity in those countries and should encourage additional mega projects to exploit commercial deposits.

Significant reserves of coal, petroleum and natural gas have spearheaded a Southern Africa focus on expanding commercial energy production. Potential hydro development on large rivers in Congo (DRC), Mozambique and Zambia, and large pipeline construction projects, all aim to link supply with demand. Canadian exporters and investors should note that Canadian strengths in geomatics, seismic surveys, pipeline management and power generation and transmission are known and highly respected.

In building business relations with Southern Africa, exporters can capitalize on Canada's Commonwealth ties, shared perspectives on trade issues, and longstanding development assistance. Linkages with local companies are advisable because although the vastness of Southern Africa holds many treasured opportunities, uncovering them can, at times, be difficult. Exporters dedicated to identifying and mitigating risks can, however, continue to do well in the region. ■

Jean-François Croft is a Regional Manager with EDC's International Markets group. For more information or to receive a free copy of EDC's comprehensive publication Focus on Africa *email jcroft@edc.ca.*

Tecsult International: Into Africa

BY PETER BRAKE

More than 40 years ago, Tecsult International started packing its bags and bringing its consulting services to countries all across the African continent. Now, with offices in 25 African countries, and bringing in more than $30 million in annual sales, Tecsult International's President Marc Parent takes the time to share his company's experiences "into Africa."

Photo: Courtesy of Tecsult International

"What makes us competitive is not just being multi-disciplined, but rather, our capacity to expertly deliver all of these disciplines."

— *Marc Parent*
President, Tecsult International

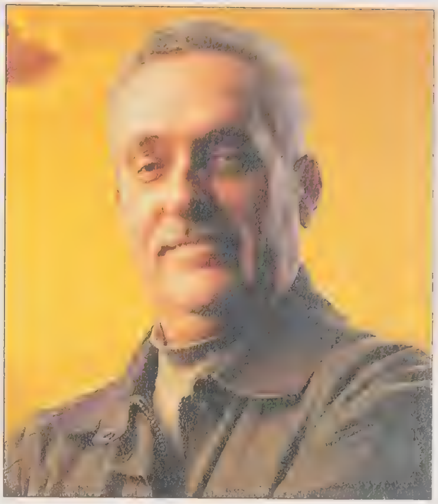


Photo: Martin Lipman

Without a doubt, this privately held Quebec-based consulting company offers an impressive array of expertise, from engineering to human resource management to earth sciences and economics. "What makes us competitive is not just being multi-disciplined, but rather, our capacity to expertly deliver all of these disciplines," says Marc Parent, President of Tecsult International, the international division of the Tecsult Group.

Founded in 1961, Tecsult emerged out of the Quebec hydro revolution of the early 1960s. The company quickly recognized that engaging in large-scale infrastructure projects required a deep knowledge-base of many disciplines. "Building dams and power stations means surveying the landscape, building roads, and managing forests to avoid flooding. Everything is integrally connected. You have to be able to appreciate the scope of a project and apply a range of solutions," notes Parent.

It soon became apparent that opportunities in overseas markets were a natural fit for the company's expertise. In 1962, Tecsult's international division was born. Today, approximately 40 per cent of the Group's revenues are derived from its overseas business, three-quarters of which is concentrated in Africa.

Parent explains: "We began in Northern Africa, mostly doing civil engineering in Algeria, Morocco and Tunisia. Central Africa was a natural next step because of its vast expanses of forests and other natural resources and our common ability to communicate in French. Since then, we have steadily expanded into the rest of the continent and into more diverse fields.

"We have the Mantantali energy project in West Africa; the feasibility of a hydro power plant on the Gambia River; rural electrification in Tanzania; sewage treatment and management plans in Mali; road design and engineering in Burkina Faso and Guinea-Bissau; and airport rehabilitation in Gabon. Those are just a few of our many ongoing projects."

Doing business in Africa can be difficult at times, admits Parent. "Basic authority can often be unstable or even absent." Parent finds that the involvement of international financial institutions (IFIs) and the Canadian International Development Agency (CIDA) help in reinforcing good governance as well as ensuring timely payment for projects. In addition to carefully selecting its partners, Tecsult mitigates its risks with extensive research on the market before signing a deal. To further reduce its risks, the company also works closely with EDC. "We don't enter into any project without first doing our homework, and doing it well," says Parent.

For Tecsult's employees, many of whom share in the ownership of the company, the benefits incurred by the host country are a major criterion for project selection. Foreign direct investment in energy production in Africa is particularly seen as having a positive spill-over effect on the continent's infrastructure development. This investment also means that IFIs are steadily expanding their reach into Africa, increasing the potential sources for much needed capital.

Parent believes that Africa is poised for major advancement in future years. "It's slow going at times, but there is increasing evidence of a will to make things happen. And there is now a greater global sensitivity to Africa's challenges. Many developed countries and IFIs have recognized that the health and security issues that are holding back major foreign investment can only be addressed with substantial financial assistance and a concerted effort to overcome trade barriers."

Tecsult's aim is to properly position itself to take advantage of Africa's enhanced trade and development. "Being involved now means we have the profile and the contacts to access new business opportunities in the future," notes Parent. "Yes, we want to make a profit, but we also want to accomplish something wonderful for Africa." ■

COMPANY PROFILE

Company: Tecsult Group
Business: Multi-disciplined project consulting
Locations: head office in Montreal, other offices in Quebec, Ontario and Nova Scotia, and in 39 other countries around the world
Employees: 1,054
Annual Sales: $107 million
Exports: 40% (75% derived from Africa)
Export Markets: 45 countries (25 in Africa)
Contact: www.tecsult.com

African Trade Facilitators

BY TERRI-SUE BUCHANAN

If you have a well established company, a strong corporate commitment and a product or service with a competitive advantage, Africa can offer significant business opportunities for Canadian exporters. Accessing the information and resources you need to do business in Africa, however, can be challenging. The following is a list of some organizations that provide assistance and support to Canadian exporters.

Export Development Canada (EDC) – Trade finance and insurance services for Canadian exporters and investors.

A Canadian housing construction company had an opportunity to expand business into Gabon to meet the demand for low-cost housing. First, they needed to raise funds by attracting investors. A key Canadian investor became comfortable with the transaction through EDC's Political Risk Insurance. EDC issued a policy covering the risks of: Transfer & Inconvertibility of funds – insures the investor's ability to repatriate funds from the project; Expropriation – insures against government interference; and Political Violence – insures against politically motivated acts of violence. With EDC Political Risk Insurance, the investor could focus on building and selling houses in Gabon.

Visit www.edc.ca or call 1-866-574-0451
For a copy of *Piece Together the Export Puzzle* go to www.edc.ca/theexportpuzzle

Canadian International Development Agency (CIDA) – Industrial Cooperation Program (CIDA-INC) can provide direct help to Canadian firms pursuing commercial ventures in Africa.

With support from CIDA-INC, Les Forages Technic-Eau Inc. of St-Élie d'Orford, Quebec, has set up a joint venture, Forages Technic-Eau Togo, which specializes in drilling hand-pumped water wells and providing maintenance and repair services. Forages Technic-Eau Togo is now virtually self-sufficient, with 462 hand-pumped wells drilled since the operations began in 1998. Forages Technic-Eau Togo has approximately 30 permanent employees and depending on the contracts, can employ up to 120 people.

Visit www.acdi-cida.gc.ca/inc.htm or call 1-800-230-6349

Canadian Council on Africa (CCAfrica) – Principal representative of the Canadian private sector in partnering with Canadian and African governments, African firms and business groups to help build Canadian trade, investment and business networks in Africa.

CCAfrica organized meetings in Ottawa and Montreal between local Canadian companies and a Kenyan trade mission. The trade mission represented various sectors of the Kenyan economy looking to buy equipment (such as mining equipment, IT, machinery) as well as prospective Canadian buyers for their production of tea, coffee and cut flowers. As a result, a Canadian environmental company is currently negotiating a major contract in Kenya, a pharmaceutical company is studying the opportunity to set up an establishment in Kenya, and a regional Kenyan bank has expressed interest in working with Canadian companies on various projects.

Visit www.ccafrica.ca or call 1-800-363-0226 # 111

Canadian Commercial Corporation (CCC) – Provides international contracting assistance to Canadian companies pursuing export contracts. CCC's involvement and the government's guarantee of contract performance strengthen the credibility of Canadian companies and the confidence of buyers.

In the skies over the Democratic Republic of Congo, Canadian technology and expertise are helping improve the safety of international flights. Under contract with Régie des Voies Aériennes, Navigation Aeronav Inc. of Pointe Claire, Quebec, is installing equipment to modernize air traffic control and aeronautical telecommunication. CCC is providing the buyer with a government-backed assurance of performance.

Visit www.ccc.ca or call 1-800-748-8191

Department of Foreign Affairs and International Trade (DFAIT) – Advances Canada's trade interests through the Trade Commissioner Service with market assessment and contact information.

Canadian Bank Note supplied the government of Burkina Faso with innovative equipment for producing passports. In addition to supplying the technical equipment, the Canadian Bank Note trained a systems engineer and about 100 government agents so that Burkina Fasco could get the most out of the equipment. DFAIT helped identify the opportunity, arranged meetings between the Canadian Bank Note and senior officials in Burkina Faso, and provided information on the local business climate.

Visit www.exportsource.ca or call 1-888-811-1119

China: Customer and Competitor

BY ALISON NANKIVELL

On my last trip to Shanghai, I was shopping one evening along one of the city's trendiest streets – Huaihai Road. Moving in and out of various stores, I noticed that young Shanghainese women were watching me intently to see what clothes interested me. If I picked up an item, almost invariably someone else would examine the same piece.

And yet, a more recent experience in Beijing was exactly the opposite. Entranced by the Chinese minority style clothing I saw women wearing on the streets, I went in search of a store offering this same loose, bright coloured style of clothing. When I found it, I was struck by the large number of expatriate shoppers like me who were eager to mimic the local styles.

These two incidents may just seem like another example of fashion at its most fickle. But, in fact, they reflect the larger influence we are facing as a result of China's growing integration into the global economy.

As China increasingly takes on the role of a global manufacturing hub for low-to-medium-value industrial and consumer products, it is paying close attention to what the rest of the world wants in terms of pricing, product features and technology.

Similarly, China's vibrant domestic economy and its burgeoning middle class has captured the attention of foreign firms producing anything from fast food, automobiles and mobile phones to chemicals, software and pharmaceuticals. Thousands of foreign firms are now actively manufacturing in China to serve the needs of their mainland customers.

As my fashion example demonstrates, there are enormous benefits to consumers from this exchange of ideas and products. For manufacturers, these strengthening trade ties have created both benefits and challenges. China's economic development brings opportunities to Western firms, but it also brings new competition from Chinese producers going head-to-head against developed country suppliers. As recent political debates over the value of China's currency and its low labour rates have shown, some developed country manufacturers may feel threatened by the expanding flow of Chinese industrial and consumer products into developed markets. Canadian firms, like other developed country producers, are learning the value of staying one step ahead of competitors in terms of design, technology, marketing, and after-sales service in order to compete on levels other than mere price.

Keeping focused on both competitors and customers in China is crucial to ensuring Canadian prosperity and competitiveness in the global trading system. Equally important, we should remember that China is focused on us, and continues to learn from developed countries via educational exchanges, trade and direct foreign investments.

The pressure facing Canadian firms to factor China into their global strategy has never been greater. Like two shoppers in a store, China and the world are watching each other to see what the other will pick up next. As an exporting nation, Canada needs to consider both the opportunities and challenges this enormous market offers. To take our eye off China means we risk leaving others to set the trends while we simply follow. ■

Located in Beijing, China, Alison Nankivell (anankivell@edc.ca) is EDC's Regional Manager for China.

Carbon Finance:

Cleaning Up Through Trade

BY TERRI-SUE BUCHANAN
AND PAUL STOTHART

The multi-year negotiations of the Kyoto Protocol have generated a great deal of debate as well as certain challenges for industries likely to face emission reduction targets. As one way of meeting these challenges, a number of "flexibility mechanisms" were negotiated as part of the Kyoto Protocol, making the Protocol more palatable to those industries likely to be hit hard by emission reduction targets and contributing to an emerging project finance field called "carbon finance."

Many Canadian businesses are realizing that the arrival of the Kyoto Protocol could mean a shift in corporate strategy over the longer term, largely due to the cost of complying with domestic policies. These costs may be significant and require specific carbon-emission reduction measures. Companies can, however, manage some of these costs through trade.

The Kyoto Protocol includes certain flexibility mechanisms that allow countries to meet their reduction targets by receiving credits from countries where emission reductions may be less expensive – ultimately allowing signatory countries and their companies to trade certified emission reductions (CER) credits.

As such, companies could invest in "clean" projects in other countries,

thereby transferring cleaner technology and financing for specific projects, while receiving "credit" for the carbon dioxide (CO_2) and other emission reductions that these investments generate. Companies could receive a commercial return by then banking, cashing, or trading this credit. Ultimately, these CER credits represent a new form of currency associated with clean projects, creating an emerging project finance field: carbon finance.

The Kyoto mechanisms include:

- The Clean Development Mechanism: companies earn credits by investing in emission reduction projects in developing countries;
- The Joint Implementation: companies earn credits by investing in emission reduction projects in developed countries that have agreed to a Kyoto target; and,
- International Emissions Trading: allows developed countries that have agreed to a Kyoto target to buy and sell emission credits among themselves.

While the CER trading field is still in its infancy, Environment Canada estimates that approximately 60 international projects that could potentially involve some form of carbon finance are presently being explored by Canadian companies. In fact, the World Bank estimates that global trading of CER credits will triple during 2003.

In addition to the clear benefits the Kyoto mechanisms present to organizations within the clean energy sector (fuel cells, wind, solar and geothermal energy, waste-to-energy), other industries can also take advantage of CER credits.

The Canadian Association of Petroleum Producers (CAPP) represents companies that explore, develop and produce natural gas and liquids, crude oil, oil sands and elemental sulfur throughout Canada. One of the mandates of CAPP is to help ensure that the Canadian oil and natural gas industry remains competitive in an increasingly international environment while taking action to reduce greenhouse gas emissions.

Rick Hyndman, CAPP Senior Policy Advisor for Climate Change, sees room for significant credit creation within the oil and gas sector. "Whether a company adjusts its own operations to bring emissions down or whether they buy foreign credits, the oil and gas industry (and many other sectors for that matter) considers the flexibility mechanisms to be an important option, particularly when companies are faced with challenging emission targets," he notes.

While ultimately the association is of the opinion that it might be more appropriate for Canada to be putting more money into R&D, rather than purchasing credits in other countries, CAPP does believe that the option is valid. These mechanisms impact not only those exporters who deal with oil and gas as a commodity, says Hyndman, but those in the service industry as well, particularly companies that can provide technical services to help improve efficiency and reduce emissions in developing countries.

"Whether they are Canadian-based companies producing oil in developing countries, or multinationals operating in Canada and elsewhere, these companies might see a considerable amount of credit generation under the Kyoto mechanisms, given that the emission performance in many developing countries is not as good as it is in Canada," Hyndman concludes. ■

Paul Stothart is an Environmental Goods and Services Advisor with EDC's Business Development group. For more information, visit www.edc.ca/docs/industry/profiles/enviro_e.htm.

GLOBE 2004: March 31 – April 2, 2004
Vancouver, B.C.

Generating more than $425 million in business and hosting nearly 10,000 participants, GLOBE's biennial events help Canadian exporters win big on the global "green" field. EDC is proud to be a major sponsor of this premier international conference and trade fair on global environmental opportunities. To participate or find out more about GLOBE, visit: www.globe2004.com.

To Find Out More:

For Canadian exporters and investors interested in finding out more about the flexibility mechanisms of the Kyoto Protocol, visit the Government of Canada, Climate Change web site **www.climatechange.gc.ca**

Other Resources Include:

Canada's Clean Development Mechanism & Joint Implementation Office – the federal government's focal point for CDM and JI activities – created to enhance Canada's capacity to take advantage of the opportunities offered by the CDM and JI:

www.dfait-maeci.gc.ca/cdm-ji

Within the federal government, climate change is co-managed by the Minister of the Environment and the Minister of Natural Resources. Visit Environment Canada:

www.ec.gc.ca/climate/home-e.html

International Institute for Sustainable Development (IISD) has been actively engaged in defining the framework in which global action on climate change may take place, providing neutral reporting on key international meetings and conferences:

www.iisd1.iisd.ca/climate

Papers related to this topic are also available on the World Bank web site at:

www.econ.worldbank.org

Using Your Board as a Springboard to Growth

BY **BRENDA BROWN**

ExportWise asked Jacques Lévesque, Vice-President of Governance and Leadership at Renaud Foster Management Consultants, to provide some practical advice on how to get the most from your Board.

EW: Why do companies need a Board?
JL: Companies need a Board for legal and practical reasons. But it's not a one-size-fits-all paradigm. You can't put one in place simply to meet a legal requirement. Instead, think of it as a way to grow your business because, with the right people, a Board can help establish and reach long-term goals.

EW: What's the difference between a Board of Directors and an Advisory Board?
JL: Many smaller companies who are concerned about the Board's involvement in their business decisions prefer Advisory Boards because they are less expensive (members don't typically get paid for their time) and are restricted to providing advice, *not* making decisions – a subtle but important distinction. Board members also like it because they're not subject to the same liability, an important consideration when you can be held personally liable if something goes wrong.

EW: How big should a Board be and does this change over time?
JL: Usually there is a minimum of three Board members for small companies who aren't looking for outside money. Boards start to grow when companies need new investors who often demand a seat in return for their investment. People with specific skill sets such as lawyers, or those with specific expertise, can also sit on a Board to fill perceived gaps.

EW: Who should be on the Board?
JL: In smaller companies, friends and family are usually appointed first – like-minded people with similar views. This can pose future problems, however, because diversity has become a hot issue. It's difficult for companies to go public without independent Board representation. Structure your governance practices with this in mind so you can raise money in a public offering later.

In publicly traded companies, you must follow rules to nominate and elect directors. This usually involves mailing out a proxy to shareholders asking them to vote 'yes' or 'no' to a slate of proposed directors. That list is often strongly influenced by management. Some would like to see this process opened up so that shareholders can have greater impact on director nominations as part of the Annual General Meeting process.

EW: How should you structure a Board?
JL: There are regulations on how to appoint your Board, but not how to organize it or what kind of people to appoint (although they must be over the age of 18). However, newly proposed regulations say members must be 'unrelated' and 'independent' and, for the audit committee, financially literate.

Independent generally means they haven't been an employee with the company or a subsidiary for three

"Companies need a board for legal and practical reasons. But it's not a one-size-fits-all paradigm."

years and are not on the Board of a major supplier or its management team. Traditionally, the president or CEO is the chair. This is changing as well, the theory being that separating the two positions will create 'creative tension' between the Board and management team.

EW: When is it not appropriate for Boards to be involved in business decisions?

JL: In our experience, the level of involvement follows a trend. First, there's the nuts and bolts of getting the business on solid footing. Then you move to an operational level where the Board is thinking about key functional issues (e.g., moving out of the domestic market, expanding product lines) and then to the pinnacle where the Board recognizes their role is to think strategically and focus on policy matters. However, it can go back and forth. In a crisis (e.g., out of money, major product recall) the Board will quickly move to an operational mode if it's life or death for the organization.

EW: What if a Board member is not working out?

JL: This depends on the nature of the Board. For small private companies, it can be challenging. If Board members are tied into the company's financing, you may need to buy them out to effect a change. In a larger, publicly traded company, there are rules to follow to nominate, elect and retire directors that are dependent on shareholder decisions.

EW: How much should they get paid?

JL: Directors in large companies are generally paid a set amount depending on their role and level of involvement. Directors in smaller companies aren't usually directly compensated because they are typically major shareholders or investors and are compensated as managers or through capital appreciation.

The exception is when you appoint someone with subject matter expertise or connections. Historically, they receive options not cash, i.e., they're given an option to buy shares in the company at a certain target price in the future, presumably when the market share is higher. Options can present their own problems, however, particularly if the share value goes up rapidly when their option to buy is at a much lower price. In this situation, Boards can lose perspective on what's good for the company versus what's good for those holding these options.

In tough economic markets, the Board tries to meet market expectations. But while the Board wants to keep share values up, this might not create real, long-term value if shares are over-valued. Given this pressure, some companies may be tempted to do accounting gymnastics to push stock prices up. Enron is a perfect example. Currently, regulations are being put in place to try and avoid this situation. ■

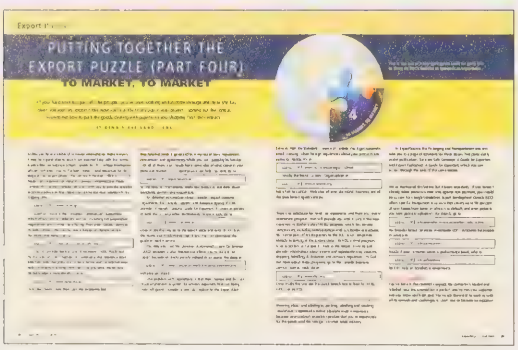
For more information on Renaud Foster Management Consultants visit www.renaudfoster.com.

I read with keen interest Alison Lawford's commentary article "Corporate Conscience," which I found to be insightful.

As you have pointed out, we have sufficient number of laws to deal with unethical conduct in North America but we still have corporate corruption. The amounts involved are, at times, larger than the budget of some small countries. Therefore, the answer is not in creating new laws or new accounting standards, but rather to look within ourselves.

What we need today is what you have outlined in your article; namely, clear policies, solid processes and systems to ensure checks and balances are in place – that is, systems to prevent rather than detect.

Shankar Roy
Management Representative
Triton Marine Group Inc.
Vancouver, B.C.


PUTTING TOGETHER THE EXPORT PUZZLE (PART FOUR)
TO MARKET, TO MARKET

I thought you might be interested to know that I will be using your series of articles, "Putting Together the Export Puzzle (Parts One through Four)" to teach my international trade students at Seneca College in Toronto.

Byron G. Tobar, MBA
Partner, Anexiom Inc.
Toronto, Ontario

Editor's note: A summary of this series is now available online at: www.edc.ca/theexportpuzzle. EDC also offers a free online learning site at www.edc.ca/elearning.


Commentary:
Corporate Conscience
BY ALISON LAWFORD
Enron, WorldCom, ImClone, Nike – we've all heard of corporations being involved in bribery and corruption, secretive deals and human rights issues. Despite these high profile cases, and the damaging fallout, many people don't believe the corporate world will change

I just finished reading Alison Lawford's "Corporate Conscience" in the Fall edition of *ExportWise*. As your introduction accurately pointed out, we have all indeed heard of Enron et al., and interest in corruption and its related rise and fall scenarios is probably on the increase.

I found your example of the corrupted U.S. Immigration officer working in Calgary interesting, but even more interesting was the fact that you neglected to mention the Canadian company that corrupted him or any consequences thereto. Does Canada subscribe but not proscribe to the *Corruption of Foreign Public Officials Act*? Surely the Canadian corrupter must have suffered some consequence? This fact should be just as important, if not more so, as the fact that the immigration officer was to spend six months in jail. After all, it does take two to tango, and I suppose corruption is the same.

Don Dixon
Canadian Gosling International Corp.
Calgary, Alberta

Lawford responds: Indeed, the Canadian company *is* facing consequences. At the time of publication, a preliminary hearing had been scheduled. The company in question is Hydro Kleen, from Red Deer, Alberta. ■

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Julie Harrison
jharrison@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Anne Tanguay in collaboration with Maguy Robert

Contributors
Peter Brake, Brenda Brown, Terri-Sue Buchanan, Ian M. Clarke, Jean-François Croft, Lorne Cutler, Jane Daly, A. Ian Gillespie, Peter Herrndorf, Dennis Jones, Sandi Jones, Alison Nankivell, Stephen Poloz, Cathy Pruefer, Paul Stothart, Michael Toope

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us on-line at **www.edc.ca.**

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Want to turn your export sale into a cash sale?
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The Economics of Corporate Social Responsibility

BY **STEPHEN S. POLOZ**

Photo: Doug Millar Photography

Corporate social responsibility is a hot topic for global companies today. But how much is enough? How will we know when our triple bottom line looks right? Economics can give us a conceptual place to start, but converting that into practical advice remains a challenge.

Corporate social responsibility (CSR) is top-of-mind in today's corporate world. All are anxious to demonstrate that they care about the social and environmental impacts of their business, and are doing something about them.

The question is, how can a company know when it has done enough on the CSR front? Some would argue that there can never be too much CSR undertaken by a company, but at some point, the company must balance the social good against the welfare of its shareholders and employees.

Much discussion of CSR focuses on accounting principles and developing broader frameworks that add environmental and social measures to financial performance to create a "triple bottom line." But the fundamental issue is really one of economics, rather than accounting.

CSR has come to the fore because the world has become so much smaller. In the old days, one could set up a factory and spew filth into the air and it would blow away and no one would notice. Waste could pour into rivers and likewise, no one would notice. But nowadays the world is much more crowded. Many would argue that our air and waterways have absorbed all they can. Today, one more bit of pollution matters much more than it did in the past.

Economists refer to such phenomena as air, water and noise pollution as "externalities." These are the unintended side-effects of economic progress. For example, a company makes a product that people happily pay for, creating jobs – two immediate social positives. However, that same company may produce various forms of pollution which are social negatives. Generally, these costs are borne by society at large, not by the company.

In today's more environmentally aware world, the company might attempt to offset some of the costs it is imposing on society by giving to charity, developing student work programs, supporting youth athletic teams, or otherwise investing in its community. Such solutions improve the company's balance sheet with society, to be sure, but they can leave the underlying pollution problem unaddressed. When it takes this form, CSR is like a bit of fancy wrapping paper and a bow, wrapped around an ugly present.

The economist's theoretical solution to this problem is to internalize the externalities. What this means is that the company is required to pay the cost imposed on society by its externalities. This encourages the company to reduce its polluting effect, either by spending more on pollution control, or perhaps by reducing its output. But it also permits the company to continue to function, provided that it compensates society for whatever pollution it must generate. These funds can go toward reducing taxes in general, or to fund environmental clean-ups, so that those who generate pollution pay for doing so, and those that do not, get a break.

We are a long way from being able to implement such a theoretical solution. But companies can do a better job with CSR by thinking about the social and environmental impacts they generate and attempting to internalize them, rather than making less specific CSR gestures. Financial institutions like EDC are in a unique position to strengthen this internalization process, since their role is to facilitate a business transaction. For example, by putting in place leading-edge environmental practices, and embedding those principles in our corporate culture, EDC ensures that environmental impacts are taken into account and mitigated in the business it facilitates.

The bottom line? Over time, CSR practices will shift from those akin to wrapping an ugly present with fancy paper and a bow to a more rigorous model where socially responsible business principles and ethics are woven right into the fabric of global corporations. This internalization will make corporate reporting simpler and more standardized – and companies will still invest in their communities because they want to, not out of a sense of obligation. ■

Stephen Poloz (spoloz@edc.ca) is EDC's Vice-President and Chief Economist.

Western Canada

Linda Niro
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Lewis Megaw
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8688
Fax: (613) 598-3811

Ruth Fothergill
Vice-President
Corporate Outreach
Tel: (416) 640-7615
Email: rfothergill@edc.ca

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
Fax: (709) 772-8693

contactatlantic@edc.ca

International

Mexico
Marvin Hough
Regional Director for Mexico & Central America
Tel: (011) 5255-5387-9316
Email: mhough@edc.ca

Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil & Southern Cone Countries
Tel: (011) 55-11-5509-4320
Email: cescobar@edc.ca

Poland
Dennis Goresky
Regional Director for Central & Eastern Europe
Tel: (011-48-22) 584-3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Director for China
Tel: (011) 86-10-6532-3536, ext. 3357
Email: anankivell@edc.ca

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EDC's Magazine for Canadian Exporters

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Spring 2004

ExportWise

From Roaches to Riches

How a cockroach helped crown Portfolio Entertainment with international acclaim

In This Issue

Photo: Doug Millar Photography

A. Ian Gillespie, President and Chief Executive Officer

Leveraging Networks

As we all know, 2003 was a bumpy year for the Canadian economy – about as unpredictable as the weather. But spring has arrived, and with it comes a feeling of rejuvenation. In 2004, rejuvenation includes the economy.

Amid growing evidence that a sustainable recovery has arrived, EDC is forecasting that the global economy will see synchronized growth in 2004, which we predict will expand by four per cent in 2004 compared with 3.3 per cent in 2003. And with the economy coming back on track, we can expect to see a return to 'normal' business conditions.

But in light of the event-driven risks that we witnessed in 2003, we recognize that volatility has become the norm, so we can also predict that the road forward will be challenging. In keeping with our mandate, EDC is dedicated to adapting to these changing circumstances in order to open doors for Canadian exporters.

As such, our corporate goals for 2004 are relatively straightforward – ensure that all Canadian companies, regardless of size, can access the financial and risk management services they need.

To reach more exporters, we will be conducting cross-Canada seminars to provide you with the information you need to remain competitive in the international marketplace.

Our Chief Economist is going on the road this spring for our 22nd Annual "Let's Talk Exports" seminar to share EDC's knowledge with you – information on the ever-changing global economy and its implications for Canada's economy and trade opportunities and, of course, the Canadian dollar.

Helping more exporters become more successful

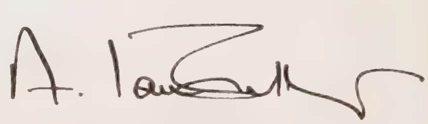
Additionally, we will also be hosting many educational seminars throughout the year on how to access and use EDC's products and services to take advantage of international opportunities. (Seminar details are included in this and upcoming issues of *ExportWise.*)

To help exporters become more successful, we will continue to expand and leverage our extensive network of partnerships by combining our expertise with other players in the exporting and financial communities.

One key partnership is the Canadian banking network, with whom we will continue to develop innovative ways for exporters to work with their financial institutions to increase their working capital – an ongoing priority at EDC.

In addition, we will focus on bringing new opportunities and capacity to the Canadian market by leveraging our international network and those of our trade partners to match up opportunities in key developing markets with Canadian business.

While it took some hard hits in 2003, the resilient Canadian economy looks poised to make significant gains in 2004, and EDC will continue to improve our product lines and service delivery through innovative and proactive initiatives in order to help Canadian exporters become more competitive on the world stage. ■



A. Ian Gillespie, C.I.T.P.

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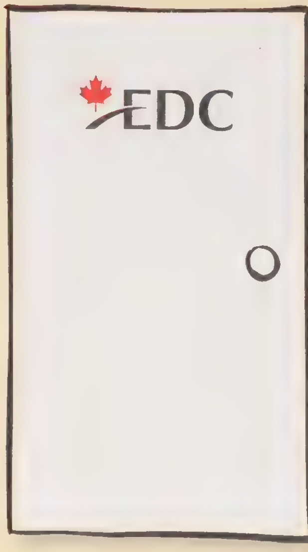

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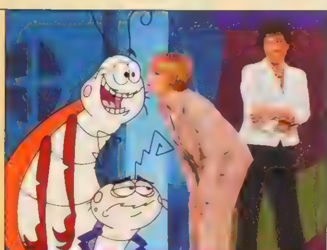

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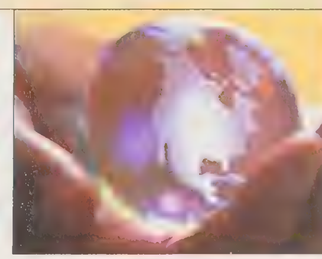

In Every Issue

Cover Photo: Martin Lipman / Animated images: Portfolio Entertainment

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Don't Compete, Collaborate

BY **DOUGLAS REID**

Rather than view your U.S. counterpart as a competitor, switch gears and make a strategic alliance that yields benefits for you, your partner and your customer.

What is an alliance?

The easiest way to think of an alliance is an agreement to co-operate with another company, for mutual gain, that goes beyond a single transaction.

In most cases, companies co-operate because each needs something from the other to create value that it couldn't create on its own. Each has something the other wants or needs – a valuable resource such as intellectual property, spare production assets, market knowledge, or distribution channels. And alliances have been shown to grow revenues, improve a company's access to information within its industry, give it increased status, enable the monetization of an entrepreneur's investment, and compete more effectively.

Most smaller companies find that mergers or acquisitions are too expensive, can't be financed effectively, or entail buying parts of another firm that are not immediately useful. Alliances, on the other hand, enable a company to obtain access to only those resources it needs.

Contrary to widespread belief, the ability to be successful in forging a good alliance has less to do with size and international experience than it does with a well-thought-out strategy and disciplined execution. In other words, to improve competitive position through an alliance, rely on techniques that work, not luck.

Structurally, an alliance can take one of three forms:

Name	Looks Like	Use When	Pros	Cons
Joint venture	Two "parent" companies form a separate, stand-alone company, jointly owned by them in proportion to their contribution to it.	Need to prevent intellectual property leakage. Able to afford long-term commitment of valuable resources. Anticipate long relationship or large task.	Enables control over intellectual property contributed to the alliance. Stable.	Can take a long time to form, immediate opportunities may be lost.
Equity alliance	Agreement between two companies to co-operate, with one making a small equity investment in the other.	Partners are of different sizes, and one needs financing. Expect a long relationship on multiple projects.	Enables the small firm to receive equity financing without forfeiting control. Stable.	May be a precursor to a takeover. Can take a long time to form.
Non-equity alliance	Agreement between two companies to co-operate.	Expecting a relationship based on a single project, with an option to expand.	Can be formed quickly.	Can be dissolved quickly, so may be unstable relative to other forms.

How to form an alliance

The seven-step approach summarized below has helped dozens of Canadian and international companies to form alliances that create value. The key to using this approach is to recognize that not all alliances will work for you. View the process of formation as much as a chance to avoid a bad entanglement as it is a chance to forge a partnership that improves your competitive position. Most importantly, don't consider forming an alliance just because a competitor has announced one.

1. Do you need this?

An alliance is supposed to support your strategy, not become your strategy. So consider your alternatives to partnering quite seriously. Will you be able to afford the commitment of time, money and resources (because alliances always take more resources, especially time, than you imagine). What is at risk if you don't succeed? What is your fallback plan if you can't form the right type of arrangement?

2. Put it on paper

At minimum, you need to be clear on the following items, which can be defined on a sheet of paper.

- Focus of the alliance
  - Objectives of both parties
  - Roles
  - Resources required
- Scope of the alliance
  - Technology platforms
  - Segments or geographies
- Exclusive or not – will you and/or your partner seek other relationships?
- Customer-facing model – what does the customer see?

3. Generate a list of prospective partners

Look in your own industry, in channels, and in related and supporting industries. Look at both market leaders and those who seek to supplant them. Ask professional advisors (lawyers, accountants, executive search consultants) as well as government resources (EDC and DFAIT). Consider former partners of your competitors.

You are looking for a prospect that has compatible goals, for which an alliance is important to performance, and is prepared to commit the necessary resources (money, people, and time) to making the alliance work. But most important of all is whether the partner has the "scarce factor" you need – whether that's intellectual property, market access, distribution, spare manufacturing capacity – whatever your company lacks that cannot be replicated in a short period of time.

4. The approach

Contact the prospective partner to discuss forming an alliance. If you are able to obtain a meeting, the agenda for it should be brief. Do they have a shared interest, and are they willing to invest in pursuing negotiations? Ideally, they will be prepared to designate a team that will handle subsequent steps, based on a timetable for action that you jointly establish. At this meeting, ask the prospective partner to complete the same profile that you did in Step 2 *(at left)*. Share yours. If you find obstacles that can't be overcome, they are good reasons to pursue other prospects.

5. Explore compatibility

Do this on several levels. Naturally, interpersonal compatibility is vital – expect to spend a lot of time meeting with the prospect. But you must verify their bona fides through a series of meetings and facilities tours that enable you (and them) to assess the quality of resources that will go into the alliance. If you're satisfied, the hard work of negotiating a working agreement can begin.

6. Plan implementation and negotiate the alliance contract

Work out details of implementation (how the alliance will operate) coincident with negotiating the alliance contract. I learned the value of this approach from Hewlett-Packard. Their experience showed that while implementation was most important to eventual alliance success, companies new to alliances paid far too much attention to "winning" the contract negotiation. Instead, use negotiations over how the alliance will operate to raise issues that must be solved contractually. The power of having a roadmap for action once agreement is reached not only accelerates your time to realizing value, it obliges your managers to discover how compatible their counterparts are, early.

7. Finalize the contract and get to work!

At minimum, you will want to reach agreement on the following (naturally, your legal counsel will add to or subtract from this list as appropriate):

- Purpose and term of the alliance
- Boundaries – what is included and what is not
- Exclusivity
- Customer-facing model
- Alliance business plan
- Resources and their sources
- Working processes and governance
- Financials, measurement and value return
- Intellectual property sources and rights in the event of termination
- Termination mechanism

What happens now?

With a signed agreement and a plan to make the alliance work, you are now able to begin converting co-operative intent into value. This is harder than it seems and well beyond the scope of this article. However, the core ideas are simple: contribute an increasing amount of valuable resources to your partner, do not compete with your partner outside the alliance and keep every commitment made to the partner in full. Then you will join the thousands of Canadian companies that are benefiting from co-operation as a competitive tool. ■

Douglas Reid is a professor of business at Queen's University who researches, teaches and consults on alliances and business strategy. He can be reached at dreid@business.queensu.ca.

Joint Venture: The Back Kit System

BY **PETER BRAKE**

When a U.S. doctor was approached by one of his chronic back pain patients for assistance before heading off on a cycling vacation through Europe, Dr. John B. Day created a self-care kit for him. It worked so well that the patient continued using the kit after he returned, and Day soon began teaching the "Back Kit System" technique to all his patients.

After his initial success in the United States, Day was keen to expand his product's distribution across all of North America. A mutual friend connected Day, based in Colorado, with Jim Comerford, an organizational development and best practices consultant, based in Newfoundland.

The two entered into a joint venture with the goal of marketing the Back Kit System in both Canada and the United States. They immediately focused their efforts: Day was to expand their distribution network of health care professionals, while Comerford was to concentrate on establishing manufacturing facilities in Canada.

However, they soon realized they would need to develop a more comprehensive set of sales tools than those Day had been using. Comerford explains that "Because Dr. Day successfully sold the Back Kit with minimal sales aids, we assumed that our needs would be minimal. However, the health care professionals that we would be relying upon for expanded distribution across North America had varying levels of skill and comfort in sales."

Comerford applied his 25-plus years of business experience with Day's clinical knowledge to create a training program as well as practice integration materials for health care professionals. The Kit itself is also now more comprehensive and includes: two therapeutic wedges; a specially designed neck roll; specific educational instructions for back care and prevention of injury; a training video and home-use manual; and follow-up appointments with a trained health care professional in the client's area.

The Canadian manufacturing facilities have now been established in St. John's, Newfoundland, and are swinging into full production. For 2004, this dynamic partnership aims to further expand its reach beyond its currently active regions in Chicago, Detroit, Denver, Seattle, St. John's and Toronto. ■

Partnering for Success

Comerford credits the efforts and support of seven federal and provincial government agencies for helping Back Kit Canada carve out its export niche.

These resources included:

Atlantic Canada Opportunities Agency (www.acoa.ca): *helped with funding to develop marketing materials*

Export Development Canada (www.edc.ca): *provided Accounts Receivable Insurance and buyer credit risk assessments*

Human Resources Development Canada (www.hrdc-drhc.gc.ca): *subsidized employment of an IT person for one year*

Department of Foreign Affairs and International Trade (www.dfait-maeci.gc.ca/pemd): *assisted with travel costs through the Program for Export Market Development (PEMD)*

National Research Council Canada (www.nrc-cnrc.gc.ca): *provided technical assistance and advice on standards, manufacturing processes and instrumentation requirements*

Government of Newfoundland and Labrador – Industry, Trade and Rural Development (www.gov.nf.ca/itrd): *provided seed capital*

Trinity Conception Community Development Corporation (www.tccdc.com): *provided funding for inventory development*

Dutailier Sets Designs on Niche Market

BY **TERRI-SUE BUCHANAN**

A business can make the decision to expand into foreign markets for a myriad of reasons. Regardless of the motivation, it takes a sound business strategy and smart implementation plan to make it happen.

1988 was a big year for Dutailier. Free trade had opened up the U.S. market and a study by the furniture manufacturers of Quebec indicated that the only companies that would survive would be those who specialized or brought something unique to the market.

At that time, Dutailier was manufacturing wood components and various types of furniture. Founded in 1976, they had also found success in the niche market of glider rockers.

They had a decision to make – whether to flounder in the furniture market as generalists or focus on a product line with the most growth potential. That year, they decided to concentrate all corporate activities into becoming a leader in the glider rocker segment.

In order to open up the U.S. market, their strategy was to target the juvenile market – those stores that sell the gamut of baby furniture, where the glider rockers were a natural complement. To do so, they focused heavily on creating new designs and developing a sales force to increase their U.S. presence.

"This is a product with a strong emotional impact," says Vice-President Roch Bilodeau. And while comfort is critical, particularly for new mothers, research showed it was equally important that the gliders match the rest of the baby furniture. They began looking at the hottest selling lines of baby furniture such as cribs and focused their efforts on matching the design. By doing so, they were eventually able to capture a large segment of the market.

Between 1993 and 1999, Dutailier saw their export revenues grow considerably, particularly to the juvenile market. After opening up several distribution centres in the United States, they were able to substantially lower shipping costs. In 1991, they opened a manufacturing plant in Virginia to bring costs down even more. All of a sudden, their products became much more appealing to both customers and retailers.

Currently, exports account for 80 per cent of revenues. With more than four million chairs manufactured, the company has grown to 900 employees with seven production and manufacturing facilities and a presence in 15 countries across three continents. They now offer about 75 different glider styles, through a combination of wood, metal, fabrics and upholstery, and stick to an R&D cycle of about six months.

Not willing to go up against the large retail furniture merchants, where the competition comes mainly from Asia, Dutailier will continue to focus on contemporary designs, says Bilodeau. "It's the first priority for our target market – those who are prepared to pay for quality and comfort." This strategy has enabled the company to eventually capture about 15 per cent of the overall North American glider market.

In order to diversify the product offering, Dutailier acquired Quebec-based EG Furniture this past spring, signalling the first time in the last 15 years that they have stepped out of the glider rocker business. Well-known in the U.S. market as a high-end manufacturer of baby and juvenile furniture, EG furniture was already being sold by 75 per cent of Dutailier's retail customers, so it seemed natural to tap into this complementary market.

This acquisition will serve to increase awareness of the Dutailier name within the United States and enable it to offer the whole juvenile furniture package – including matching glider designs. They have since merged the two sales forces and hope to double the EG Furniture line in three years. ■

COMPANY PROFILE

Company: Dutailier
Business: Design and manufacture of glider rockers
Location: Saint-Pie, Quebec
Employees: 900
Exports: 80%
Export Markets: United States, Europe, Asia
Contact: www.dutailier.com

From Roaches to Riches

BY JULIE HARRISON

"They are not very nice insects. They are a little bit smelly, and there's something about the way cockroaches move their antennae..." By this point, most of us would have quickly flipped to the next page of the newspaper and continued sipping our morning coffee over something more palatable. But not Lisa Olfman.

"We have a clear strategy: every show we produce must be highly exportable."

— Joy Rosen
Co-President, Portfolio Entertainment

As Co-President and Co-Founder of Portfolio Entertainment, Olfman is constantly mining for the next great idea with production potential. She read the full article about a bio-robot research team at Tokyo University that was working with cockroaches and thought, "What if one of these robotic cockroaches escaped from the lab and returned to his cockroach society?"

And thus "RoboRoach" was conceived

That was in 2001. Now a runaway hit on Fox Kids and TELETOON, this children's animation program celebrates the adventures of a big, gentle, slow-witted and blissfully positive cockroach that can transform himself into RoboRoach, a superbug with amazing morphing powers.

Just as the cockroach has proven itself to be brilliantly adaptable and resilient, so too have Olfman and her Co-President and partner, Joy Rosen.

Twelve years after their start-up in 1991, Portfolio now produces more than $16 million worth of children's, family and primetime programming each year and sells to more than 95 territories worldwide.

And all from a modest start-up capital of $15,000.

The dance of the entrepreneur

As an entrepreneur, Olfman's dance background has not gone to waste. Portfolio carefully choreographs who it works with, and on which projects. "It's essential that we are plugged into what is going on in the marketplace worldwide. As a small business, you just can't do it all by yourself. It is a carefully crafted dance that we do together."

The actual details of starting up a business are not always so elegant. Olfman and Rosen found themselves out of work when the television company they both worked for had to close its doors. "It happened very quickly, and in lieu of pay, our boss told us that we could take the office furniture. So we hired a couple of guys with a van – who showed up drunk – and moved everything that could fit through the door into my spare bedroom," recounts Rosen with a laugh. ▸▸

Equipped with the second-hand furniture and a borrowed typewriter, Olfman and Rosen launched an entertainment business with two arms: production and distribution.

“We believed that this would be the perfect business marriage,” explains Rosen, “By attending all the world television ‘markets’ (industry trade shows) as a distributor, you get a sense of broadcasters’ needs. Whereas if you’re producing in isolation at home, it’s very difficult to understand what a broadcaster in Australia, Asia, or Eastern Europe might be interested in for their audience.”

Clearly, this plan worked. Unlike many start-up stories involving risk and re-mortgaging the family home, Portfolio has always been profitable. “As a business owner, I think you are inherently more of a risk-taker, but I’m not a gambler. We’re actually very conservative,” says Olfman.

Recognized in the industry for its fiscally conservative but innovative financing models, Portfolio has proven its capacity for sustained profitability since inception. And within the last five years, the company has achieved 400 per cent growth.

More recently, Portfolio has chosen to cut its risks by insuring its contracts. Says Olfman, “For many years we didn’t insure our contracts and it was only good luck that we never had a situation where someone defaulted on us. But, I could see the writing on the wall. There was so much economic insecurity, the times were changing. Buying insurance for our contracts with EDC was one of the smartest business moves we could make.”

> *“For many years we didn’t insure our contracts and it was only good luck that we never had a situation where someone defaulted on us.”*
>
> — Lisa Olfman
> Co-President, Portfolio Entertainment

Lights, camera, export

Exporting was in the opening credits for Portfolio. “We immediately started exporting. We knew that was key for us. Production is time-consuming and costly, so we needed to export finished programming through our distribution arm right away as a means to create cash flow,” says Rosen.

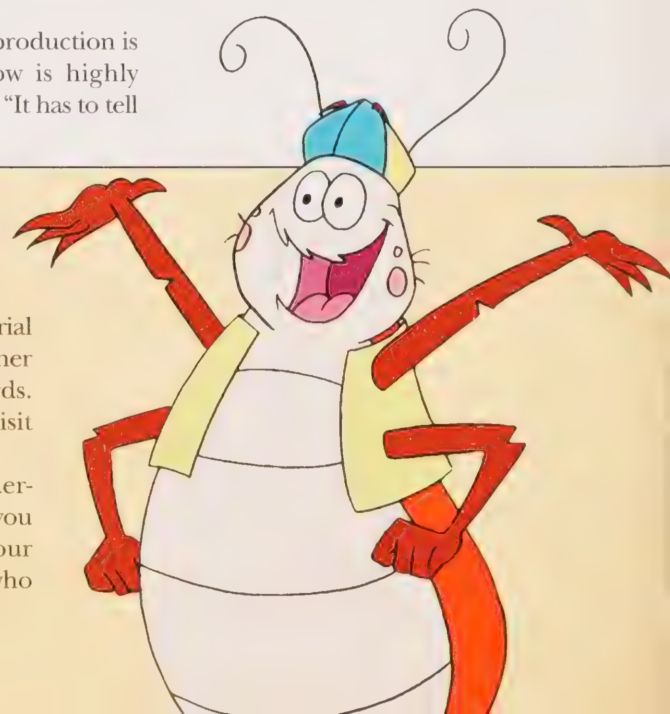
Portfolio’s strategy for production is to ensure that every show is highly exportable. Rosen explains, “It has to tell a universal story. In the case of animated projects, for example, it needs to use raw physical comedy rather than language-based cultural jokes.”

The industry is global-minded, and its trade shows are proof positive. There are two events a year which take place in Cannes, France, and every international network shows up to buy programs for their channel. Prior to these events, Olfman and Rosen pre-schedule meetings with attendees from all over the world. “It’s intense, but it is an ideal opportunity to meet with everybody all at once. We maximize every minute at a market – we literally have meetings every 20 minutes from breakfast onwards,” says Olfman.

“And we never leave any stone unturned. As exporters, we believe that a ‘no’ means ‘no, not just yet.’”

COMPANY PROFILE

Company: Portfolio Entertainment Inc.
Business: Television and film production and distribution
Established: 1991
Location: Toronto, Ontario
Employees: 12
Exports: 40%
Export Markets: Europe, Asia, North America
Contact: www.portfolioentertainment.com



The Exporting Entrepreneur

Olfman and Rosen have been racking up awards for their entrepreneurial savvy. Most recently, Portfolio Entertainment was the Export Award Winner of the Rotman Canadian Woman Entrepreneur of the Year Awards. To nominate an entrepreneur for this prestigious award, please visit **www.cweya.com**.

This award was sponsored by EDC, as one of many initiatives underway to encourage women entrepreneurs to expand into exporting. If you would like to learn more about launching into or expanding on your exports, read about how other women do it, or call someone at EDC who works with women exporters, visit **www.edc.ca/womex**.

Hemptown Clothing: Home Grown Success

BY **VERONICA PROCHAZKA**

What's a good substitute for cotton that is easily produced, needs little to no pesticides and was legalized only a few years ago? **Answer:** Hemp – good old cannabis, a plant that is making millions for Vancouver-based Hemptown Clothing Inc.

Created by partners Jason Finnis and Larisa Harrison in 1995, Hemptown manufactures T-shirts with a 55 per cent hemp/45 per cent cotton blend. The idea came during Finnis and Harrison's university days, a time when environmentally friendly products were beginning to grow in popularity.

By using a blend of hemp and cotton, Hemptown cuts pollution from cotton production by more than half, while retaining the strength that is hemp's trademark. These garments are then sold to sportswear and promotional wear companies for screen printing or embroidery work.

Hemptown's garments are in high demand because they are economical, soft in feel, and pre-shrunk. Increasing public demand for environmentally friendly products has also played a large role in its success. Over the past four years alone, the company's revenues have grown 400 per cent each year.

Ultimately though, much of the company's growth is attributed to exporting. Sixty per cent of its revenue is attributed to sales in the United States, with Canadian and overseas sales (to locations such as Japan, Europe and the U.K.) accounting for 30 and 10 per cent, respectively.

Exporting didn't bring immediate success, though. "We certainly had our share of bad debt when we initially starting exporting to the United States," explains Finnis. "Even if you've done a credit check and the company has come out all aces, it's next to impossible to reclaim debt south of the border should the company not pay the bill."

However, thanks to a recent partnership between the Canadian Apparel Federation (CAF) and EDC, Finnis can now breathe more easily when shipping to customers outside of Canada by insuring his contracts. Having insured receivables has also helped Hemptown obtain a line of credit. "EDC was a definite catalyst in the creation of our relationship with Hong Kong and Shanghai Banking Corporation (HSBC)," adds Finnis.

So what's in store for this leading hemp garment manufacturer? "Given the size of the promotional apparel market – which in the United States alone is a $6 billion industry, with 1.4 billion T-shirts being produced yearly – we're definitely looking to get a piece of the market," says Finnis. Looks like Hemptown is well on its way. To support this growth and the resulting increased inventory and operating cash flow, Finnis just took the company public on the NASDAQ OTC. ■

COMPANY PROFILE

Company: Hemptown Clothing Inc.
Business: Hemp blend T-shirts
Location: Vancouver, British Columbia
Employees: 15
Annual Sales: $2 million
Exports: 70%
Export Markets: U.S., Japan, Europe, U.K.
Contact: www.hemptown.com

Partnering for Success

EDC and the Canadian Apparel Federation (CAF) have partnered to help provide greater support to smaller exporters. EDC Accounts Receivable Insurance provided by CAF is a simple, structured program that groups together CAF's smaller members (annual sales under $5 million), insuring them against the risk of non-payment by buyers.

The EDC-CAF Accounts Receivable Insurance program has helped us tremendously," shares Finnis. "It's allowed us to become a more competitive exporter. Before, we always used credit cards, prepayment and money orders. But now, with EDC's Accounts Receivable Insurance in place, and the appropriate credit approvals, we can extend terms to our customers and EDC covers us if a buyer doesn't pay."

Settling the Contract

BY **DENNIS** AND **SANDI JONES**

In the previous two articles of this series, *ExportWise* considered how you might choose representatives and check out prospective buyers in developing markets abroad. Now it's time to think about negotiating contracts in these special markets.

Keeping it clear

No matter whether you or a representative does the negotiating, you'll vastly reduce your risks if the contract's terms and conditions are clear and precise. At the minimum, they should describe:

- the legal entities entering into the contract;
- the contract's validity conditions;
- the goods or services to be provided, together with their purchase price and their payment, inspection and delivery terms;
- any warranty and/or maintenance terms and conditions;
- the entity responsible for obtaining any import/export licenses;
- any contract performance security requirements such as bank letters of guarantee or surety bonds;
- the remedies available if the buyer defaults or cancels;
- the provisions for independent mediation or arbitration to resolve disputes, and the jurisdiction where this would take place; and
- the contract completion date.

Obviously, you should also ensure that all parties to the contract have signed it.

Avoiding assumptions

In Canada, signing a contract ends the negotiations. But in some countries, this merely means that you and the buyer have agreed to do business. Serious negotiations begin after signing.

"Make sure the contract clearly stipulates your performance obligations."

— Tom Kowbel
Senior Program Manager, EDC

If you don't realize this, you may make more initial concessions to your buyer than you need to. Then, after signing, you may find your buyer requesting further concessions, but you've already negotiated away all you can afford to give. So you might consider …

Negotiating through a representative

A reputable local representative, who understands the buyer's culture, can help you avoid such problems. "However," says Robert Fosco, a Claims Manager with EDC, "you should always carefully review any contract that an agent brings you. If it's abnormal, or too one-sided or lacks crucial information, it may affect your ability to fulfill the contract's terms and to receive payment. You should also ensure that the buyer who is actually responsible for payment signs the contract – if only you and the agent sign it, you have no written evidence that the buyer owes you the money, and you might have trouble getting paid."

Understanding licensing and intellectual property

Not all export deals involve shipping a Canadian product to the buyer; many, instead, involve licensing.

"At the basic level," says Theodore Ling, a Partner at the legal firm of Baker & McKenzie, "a license is the granting of the rights to use your proprietary technology and/or intellectual property. It usually doesn't involve granting all the rights to the property, but rather a selection of them."

Again, the contract must be precise about the licensee's rights and where they are valid. Vagueness about these rights can create serious problems, as Ling points out. "For example, if the licensee uses your technology to create other technologies, this can severely undermine the value of your original technology. You have to be very careful with licensing – if you don't put enough protection around your property, at least contractually, you may lose it."

You must also be precise about the territory where the license is valid. Otherwise, your licensee may begin selling your product in a market that you intended to license to somebody else, and you'll lose the second sale.

Establishing payment terms

You'll do better in contract negotiations if you know what payment terms you can reasonably request. Small- to medium-size exporters usually obtain a down payment of at least 15 per cent of the contract price, either on signing or within 30 days after signing. The balance is normally paid on shipment of goods.

There are many variations of this, naturally, and you'll have to decide whether a given variation is one you can accept. When making the decision, consider factors such as your experience (if any) with the buyer, your experience with the market and your working capital requirements.

Particularly if you're in the construction industry, avoid accepting a "pay-when-paid" clause in the contract. This means that your buyer has to pay you only when the end-user pays him; consequently, you're giving control of your revenue stream to a third party who may not be a signatory to the contract.

Cultural differences can also affect attitudes to payment – in some developing markets, it's an affront to demand payment when payment is due. To get around this, make it clear from the start that you expect to be paid on the due date. Otherwise, be prepared to allow some additional time for payment.

Contract performance security requirements

Foreign buyers usually require exporters to provide financial security to ensure that they'll honour their commitments at both the contract's bid stage and the performance stage. "This security," explains Tom Kowbel, a Senior Program Manager with EDC's Contract Insurance and Bonding Department, "can be an on-demand bank letter of guarantee, a standby letter of credit or a surety performance bond. In all these cases, make sure the contract clearly stipulates your performance obligations, as well as the conditions under which your buyer can make a valid call for non-performance on the guarantee or bond."

Obtaining contract insurance and bonding

Exporting to developing markets carries two major contractual risks:

- Until you invoice your buyer, you need to protect your contract performance costs from political risks or contract termination.
- After you invoice, you need to protect against non-payment.

To help you deal with these issues, EDC can provide you with Specific Transaction Insurance against possible losses on individual contracts that result from specific political or commercial risks. EDC's contract bonding programs can also help you obtain the required contract performance security instruments without restricting your working capital, by providing support to your bank or surety company that will ensure that the needed bonds or guarantees are issued.

The last word

Before you sign any contract, of course, you should have it reviewed by legal counsel that understands the laws of your buyer's country. This final precaution will help ensure that your export venture remains successful and trouble-free. ■

The two previous articles in this series, "Finding the Right Representative" and "Checking Out Your Buyer," are available online at www.edc.ca/exportwise, Winter 2004.

Coping with
Licensing and Customs

BY **DENNIS** AND **SANDI JONES**

Having signed the contract, you now need to get your product to your foreign buyer. This involves considerably more than loading and shipping some containers, because at your customer's border, your cargo will come under the eagle eye of a customs official.

Shipping goods internationally

Shipping goods between countries can be complicated and time-consuming, and using a freight forwarder may save you trouble and expense. You can hire these agencies just to negotiate a rate with a carrier, or have them do everything from arranging insurance to finding a reputable customs broker. Some forwarders specialize in shipments to certain countries, while others concentrate on particular types of goods.

Finding out who the importer is

When you're exporting to most developing countries, you'll need to file an export declaration with Canadian customs before moving your goods out of Canada. That's straightforward enough. But when your shipment arrives at your customer's border, how involved do you need to be with the customs regulations and procedures there?

This depends on the delivery terms and whether you will be the "importer of record"; that is, the company legally responsible for moving the goods across the border and for paying the requisite taxes and duties.

For example, if your buyer wants you to deliver the goods duty paid, this means that you'll have to act as the importer of record. In many developing markets, however, a company that has no local business presence can't act in this capacity. Consequently, before you agree to deliver your product duty paid, be sure that your customer's country will in fact permit you to be the importer of record.

"But even if you're not the importer of record," says Carol Osmond, a legal specialist in customs matters, "you still can't afford to ignore the other country's customs procedures. Delays at customs could potentially affect when or whether you get paid, or at the very least affect your relationship with your customer."

"Delays at customs could potentially affect when or whether you get paid, or at the very least, impact your relationship with your customer."

— **Carol Osmond, LLB**
Customs Consultant

Getting help with customs

Most Canadian exporters use customs brokers who are based in Canada. These firms work directly with a broker in the buyer's country, who will clear your goods through local customs. In many developing countries, you're legally required to use a local broker.

According to Norman Hotchkiss, a Manager within EDC's SME Services division, a sales representative may also be able to help. "Some of these companies offer expertise in areas such as marketing or distribution networks," he notes, "and while they aren't licensed customs brokers, they may be familiar enough with customs procedures to help with the importation process."

Different markets, different customs

Your customs arrangements will depend on your product and its foreign market. "But to ensure your compliance with local customs regulations," advises Harris Rosen, a lawyer at Shibley Righton LLP, "you should understand your target country's requirements, either through your own research or by obtaining expert advice."

Hotchkiss agrees. "The most common pitfall," he says, "is ignorance. Exporters are often not aware of the documents they need to clear customs in the target market."

One such document, observes Osmond, is the pre-shipment inspection certificate, which verifies that the value on the invoice is the actual value of the goods. "Customs authorities in many developing countries don't have a way of checking that an invoice value is legitimate," she says. "As a result, some of them require inspection of a shipment before it leaves the country of export. The companies that provide these inspections then issue a pre-shipment inspection certificate, which is presented to the customs authorities in the importing country. Without the certificate, the goods can't enter the country."

Understanding import licenses

Usually, Canadian exporters can freely ship to foreign buyers simply by complying with the customs procedures of the buyer's country. Depending on the nature of your exports and your market, however, you may run into the complications of import licensing.

An import license is a special permit that certain countries require for importing certain goods, such as agricultural products, animals and pharmaceuticals. Depending on the country, either you or the importer may be required to hold the license. In either case, though, you should be aware of any licensing requirements well before you ship your goods.

Especially when entering a new market, you should obtain professional advice about its licensing laws. "For example," says Rosen, "India is attempting to eliminate much of the need for licensing, while Argentina is very rigid about licensing requirements. Then there are situations where a country brings in new legislation that will have a detrimental impact on Canadian exporters. Managing this kind of risk is critical, and legal advice can help you move your goods safely abroad."

Problem-free customs clearance

The principles of getting your exports smoothly through foreign customs are fairly simple:

- Complete all customs requirements before you ship the goods. Don't wait until they're at the border to discover that you need a pre-shipment inspection certificate, or an import permit or license.
- Make sure the documents are consistent and complete in terms of quantities, descriptions and so on. For example, when using part numbers, also provide a written description that will help classify the goods for customs purposes.
- Make sure the documents match the shipment exactly. If you toss in a few promotional items at the last moment and they're not on the invoice, it may create problems for your importer.
- If you use a customs broker, make sure you pick a reputable one. If possible, also choose a broker who deals with your type of product.
- Finally, and especially when entering a new market, obtain expert advice from sources who are familiar with that market's customs procedures and regulations.

If you follow these basic guidelines, your goods should sail through your buyer's customs without a problem – a result that you and your customer will both appreciate! ■

Bailment, Mala Fides, Tender ...

The Dictionary of International Trade Terms can help you navigate through the wilds of international trade and its unique terms. For definitions of hundreds of trade terms in layman's language, visit **www.itds.treas.gov/glossaryfrm.html**.

EXW, FOB, CIF, DDU, CPT ...

Do abbreviations have your head spinning? *Incoterms*, published by the International Chamber of Commerce, outlines the most commonly used standardized terms in international contracts. For more information, visit **www. iccwbo.org/index_incoterms.asp**.

Sky High with Tilco

BY **ALEXANDRE REEVES**

Successfully exporting to a developing market is not child's play. And yet, Tilco International, Inc.'s latex party balloons colour the skies of more than 40 countries.

As the third largest manufacturer of latex balloons in the world, this Quebec-based company exports 90 per cent of its products. And like any knowledgeable exporter, it relies on a mix of tried and true strategies. Here, Marie-Claude Landry, Tilco's Sales Manager, shares her advice on how to best sort through the complexities of international contracts, shipping and customs regulations.

If you're not an expert, find someone who is

Exporting to a multitude of markets, especially developing markets, means complex shipping transactions are often the order of the day. To maintain a competitive stance, you'll need to ship your goods securely in order to clear foreign customs offices without delay. That's why Landry recommends that new and seasoned exporters alike use an expert. "We use several, depending on the market of destination," says Landry.

"An exporter avoids a lot of headaches by using a freight forwarder and they are easy to find on the Internet." Landry suggests that exporters use freight forwarders with a presence in the

"One of our trucks carrying a container full of merchandise was once held at customs for four weeks because of a simple labelling error."

— **Marie-Claude Landry**
Sales Manager, Tilco

destination market and that they take the time to determine the range of services included in the quoted price.

Landry also cautions that the freight forwarder must have a complete understanding of the buyer's shipping requirements. Otherwise, Landry says, "delays at customs will jeopardize not only profits, but also the buyer's trust." In cases where your freight forwarder does not offer customs brokerage services, it is important to hire a customs broker and to understand what additional costs will be incurred.

DDP or CIF?

Trade liberalization has influenced the expectations of buyers to such an extent, that even the way you ship can make you more competitive. "In Mexico, where one of our major competitors is located, buyers expect the same service they receive locally, so the exporter must be able to arrange door-to-door delivery in that market," says Landry.

The use of the designation "delivered duty paid," or DDP (*see sidebar on page 15*), allows Tilco to assume import costs (less value added taxes) and thus meet the expectations of its buyers in Mexico, the United States and Europe, where it faces stiff competition for market share.

However, in a developing market where there are often many unknown factors, Landry recommends that new exporters in particular ship under the terms "cost, insurance, freight" (CIF), which means that the exporter is not responsible for customs expenses or for carriage once goods arrive in port. At this point, it's the buyer who becomes responsible for all of the merchandise.

Where there's a will, there's a way

Despite the political instability of countries such as Zimbabwe and Venezuela, Tilco finds that it's still possible to do business there without losing your shirt.

"There is always a way to do business in these countries," says Landry. "For example, when negotiating the contract you can protect yourself by requiring a cash payment of 50 per cent of the value of the goods before shipment. The remaining 50 per cent, including EDC insurance premiums or other shipping insurance, is paid when the goods land."

When goods are shipped DDP, their arrival at customs signals the start of the timeframe for payment. In Mexico, for example, when a buyer agrees to 90-day payment terms, Landry suggests ensuring that this timeframe includes the 10 days it generally takes to ship from Montreal to Mexico and to clear customs. Otherwise, exporters run the risk of having the payment delayed by 10 or more days if the obligations of the buyer are not clearly set out in the contract.

Dot your i's and cross your t's

Depending on the nature of a product, a health permit may be required before exporting can take place. A balloon poses a health risk since it must be blown up by mouth. Therefore, Tilco must guarantee the integrity of its product by obtaining a health permit when it ships to Mexico, among other countries. Moreover, some governments require import permits to guarantee payment of value after taxes, which requires a credit check of the importer.

Landry also points out that it is important to pay attention to the classification code in the export declaration. "Toys are subject to higher customs duties in Europe, while latex balloons fall into a lower category. The declaration must be filled out carefully because the slightest error can be costly."

Tilco exports large quantities of its product in marine containers. In countries where it is required, an inspection certificate obtained prior to export plays a critical role. The container is inspected by an accredited inspection and regulatory certification firm, such as Bureau Veritas, and affixes a seal before it is loaded into the hold. When it arrives at its destination, the container is easily cleared through customs thanks to this certification. "One of our trucks carrying a container full of merchandise was once held at customs for four weeks because of a simple labelling error. The value of the shipment made it worth our while to travel to the customs point to have the goods released. But not every exporter can afford such an expense," says Landry. Miss one detail and you can quickly change a profit into a loss – a change very few exporters can afford.

As Tilco's experience shows, it's in your best interest to take advantage of available expertise if you want to soar in the world of international business. ■

COMPANY PROFILE

Company: Tilco International, Inc.
Business: Latex balloons
Established: 1939
Location: Saint-Jean-sur-Richelieu, Quebec
Employees: 100
Exports: 90%
Export Markets: More than 40 countries worldwide
Contact: www.tilco.com

China: Enter the Dragon

BY **MIKE TRICKEY**

After nearly 150 years of hibernation, the Chinese dragon has awakened from its slumber. This communist behemoth is steadily transforming itself into a market economy, gobbling up large chunks of global foreign direct investment and sucking in low-level manufacturing jobs from companies around the world. Its growing wealth, massive population and apparently insatiable appetite for building supplies and consumer items have many international analysts declaring that the 21st century will belong to China.

Since the death of dictator Mao Zedong in 1976, a new generation of Chinese leaders has taken China in a dramatically different direction. A new emphasis on economic liberalization and attracting foreign investment has transformed the country from a backward agrarian state into a burgeoning global economic power in the space of a generation.

At the same time, China has made political adjustments that have smoothed its way to membership in the world community. Despite continued threats against Taiwan over the breakaway island's pursuit of independence, China has made peace with a half-dozen other neighbours on long-standing territorial disputes, often settling for less than half of the land in question. It has become increasingly involved in the multilateral political and economic organizations – including joining the World Trade Organization in 2001 – and has even approached NATO, the Western defence alliance, about security discussions.

Economic changes have been even more dramatic. Real GDP has grown in 30 years from a paltry US$106 billion to US$1.3 trillion, making China the world's sixth largest economy, surpassing Italy last year. Canada ranks eighth in the world with a GDP of $688 billion. The WTO predicts China will move into third place before this century hits its midway point. ▸▸

In recent years, China has passed Mexico as the second-largest trading partner of the United States and is challenging Canada for top spot. And much of this impressive export success has come in non-traditional sectors. China is now the world's leading producer in eight of 12 key electronic sectors. More than 50 per cent of the world's digital cameras and DVD players are assembled in the People's Republic, along with one-third of the personal desktop and laptop computers and 25 per cent of mobile phones, colour televisions and personal digital assistants. Crude steel production rose more than 20 per cent last year, making China the world's largest steel-maker.

As manufacturing booms, the traditionally rural population is flocking to cities, where the standard of living is hitting new highs. Nearly one-third of China's population now lives in urban areas (the country has more than 200 cities with populations in excess of one million people) and their purchases show they crave the good life as much as anybody.

Nearly all urban residents have a colour television and the Chinese cable TV market, which reaches 200 million households, is the world's largest. There are refrigerators in 80 per cent of urban homes, videodisc players and air conditioners in half, microwave ovens in 30 per cent, and computers in 20 per cent.

China's demand for steel to build new factories and the gleaming new office towers that will greet visitors to the 2008 Summer Olympics in Beijing is the main reason for the dramatic jump in global steel prices in October 2003. World shipping costs have also moved sharply higher as the Chinese demand for imports outstrips the capacity of international fleets of ocean-going freighters.

While all of this is unquestionably a magnificent leap forward for the Chinese people, and is being hailed around the world as a phenomenal achievement perhaps unprecedented in history, it can be a double-edged sword for workers in developed economies like Canada.

"There's been a lot of concern that China will end up eating everybody's lunch. And it is going to eat some people's lunch, for sure. But at the same time, it is going to provide a very good meal for many others."

— **Glen Hodgson**
Vice-President and Deputy Chief Economist, EDC

Perhaps particularly for Canada, which has been slow off the mark in recognizing the enormous opportunities for export and investment inherent in China's economic miracle.

"There's a real concern that Canadian businesses are not playing as smartly as we should and that we have to rethink our approach," says Alison Nankivell, EDC's Regional Manager for China.

She points to Australia's aggressive efforts to build its presence in China as an example of how a developed Western economy can be successful. Australian exports to China topped $9 billion last year, about 300 per cent above Canadian levels, and have been growing by 10–20 per cent annually since 1998. As well, Australia has made major inroads in establishing its "brand" across China.

In part, says Nankivell, that is a function of geography. Australia is relatively close to China and does not have easy access to the United States, the trump card for most Canadian trade strategies.

But today's reluctance to be pro-active could bring serious repercussions for Canadian businesses and Canada's overall economy tomorrow. Whether Canadians are in the game or not, China is moving ahead in developing new international relationships, and its 1.3 billion people are becoming evermore consumer oriented.

"If we keep doing what we're doing today, there's a real risk of being squeezed out," says Hodgson. "We have to change our way of thinking and start putting into place the strategies that will allow us both to preserve, and ideally to grow, our market share in China, both as an investment market and an export market."

Just how to go about cracking the China consumer market or competing with low-cost manufacturing in China is the big question.

"Business will have to look at everything from R&D to distribution in their whole business chain and decide what has to be done and where," says Hodgson. "You have to figure out where you fit in and you have to have some staying power. It's a challenge, no bones about it. This isn't like opening a rep office in Buffalo." Among the challenges are vast cultural differences, higher taxes for foreign businesses, an unstable financial system, and inadequate protection of intellectual property rights.

Nankivell says the low wages paid in China will hit manufacturers of low-tech products hardest – perhaps even kill-off that sort of manufacturing in Canada. But she emphasizes that in the globalized world, that outcome is probably unavoidable.

"If you're on the lower- to middle-end of manufacturing in Canada, I honestly do question how you're going to survive. But that's the way of the world. As developed countries become more capable manufacturers, they move up the value chain and leave the lower- to middle-end production to others."

But it is not all doom and gloom – even for Canadian manufacturers.

"There's the shock story initially, then there's the supply chain story, and then there's potentially an end-market story," says Hodgson, adding that this economic evolution presents Canadian businesses with both challenges and opportunities in the short term and the longer term.

For instance, China has doubled its automobile capacity in a very short period of time and now has more capacity than there is national demand. "But let's wait three to five years," says Hodgson. "Our auto parts suppliers and people in that industry should be thinking about China both as a market to build into their supply chain to sell back into North America, as well as an end market in itself."

Gerry Fedchun, President of Canada's Automotive Parts Manufacturers Association, agrees: "On the parts side, our manufacturers have to carefully examine their capacity and supply chain. Where can you harness China's manufacturing capacities to your advantage? Is there an offline part that could be manufactured in China without affecting our industry's standard "just-in-time" production? Are you in a niche market competing against a Chinese supplier? If so, chances are they will run you over."

"It is imperative to have a China strategy. You cannot ignore it," insists Fedchun.

Automotive parts are now Canada's second largest export to China, while service transactions have increased at an average annual rate of 11 per cent since 1998. Two-way trade was up 6.7 per cent last year over 2002 as China moved into fourth place as Canada's largest export market.

"It is imperative to have a China strategy. You cannot ignore it."

— **Gerry Fedchun**
President, Canada's Automotive Parts Manufacturers Association

Investment patterns are also changing, but the process has not been as fast.

"We're seeing more Canadian industries waking up to the strategic importance of considering investment in China and considering a presence in China," says Nankivell.

"It isn't just WalMart sourcing retail goods from China, there are also huge bits and pieces of industrial parts – like pipes, fittings, a semi-finished mould – that can be obtained in China and finished in North America."

Canadian foreign investment in China is approaching $800 million, but Nankivell, citing growing confidence in the Chinese market among both Canadian investors and Chinese entrepreneurs as a result of China's accession to the WTO, expects that figure to grow substantially.

The time is ripe for Canadian companies contemplating a move to China. While the Canadian consumer market's growth trajectory is slowing down, China's is moving into its peak consumption years and heading for a consumer boom similar to that of South Korea. That will create an enormous untapped new market for the value-added technological and luxury goods produced by Canadians.

Whether that's five years, 10 years or 20 years from today remains open to speculation, but most trade analysts are convinced that ultimately China is going to be a rich market for upscale Western products.

"There's been a lot of concern that China will end up eating everybody's lunch," says Hodgson. "And it is going to eat some people's lunch, for sure. But at the same time, it is going to provide a very good meal for many others." ■

ECONOMIC SNAPSHOT

Population: 1,281 million (2002)

Nominal GDP: US$1,237.7 billion (2002)

Total Trade / GDP: 50.2%

Currency: Yuan (Renminbi)

Merchandise Imports From Canada: US$2,628 million (2002)

Main Sources of Foreign Exchange (excl. FDI): Manufactured exports

Largest Merchandise Trading Partner: Japan (16%), United States (14%)

Main Imports: Industrial Machinery (19%), Textiles (6%)

Risks to the Outlook:

↑
- Strong foreign direct investment
- Labour productivity
- Robust consumption

↓
- Over-investment
- Banking sector fragility

Prepared by Mark Worrall, EDC Economist
www.edc.ca/economics
March 2004

Hong Kong: At Your Service

BY MIKE TRICKEY

Asia's emergence as an economic hub means it is not only an exporter of services, but also an importer. While Hong Kong may no longer be the essential middleman for Canadians exporting their wares to China, it has evolved into a sophisticated service centre.

Devastated by last year's SARS epidemic, the Hong Kong economy is showing signs of recovery after the signing of a free-tradepact with China and the lifting of travel restrictions on mainland tourists visiting the former British colony. Analysts expect the territory's economy to grow by five per cent in 2004 and add that increasing regional trade and the awakening of the domestic economy should help Hong Kong break out of its five-year deflationary cycle.

"The Hong Kong economy has gone through some difficult times, mainly as the aftermath of the movement of most of its manufacturing to China," says David McNamara, Senior Trade Commissioner at the Canadian consulate. "And while Hong Kong is no longer *the* door to China for exporters, it is still a very important one."

Christine Boutin, President of Namtrade, is not so sure. The company trades U.S. and Canadian pork, chicken, turkey and beef into the region, and has adapted to Hong Kong's changing role in relation to China. "Several years ago," she acknowledges, "Hong Kong was our main artery into China. We would sell our goods to Hong Kong importers who would then resell into China. But now we sell directly to China and rarely use intermediaries."

"I would suggest that exporters look at Hong Kong as a distinct market in

itself – and a fairly big market at that – but not as a means to China," says Boutin.

Though its traditional role as middleman between China and the rest of the world may be diminished, the territory has adapted and is now playing a more sophisticated role through investment in – and management of – commercial operations on the Mainland. It is also providing a wide range of management and financial services for Chinese and foreign firms.

Elizabeth Thomson, President of ICS Trust, a Hong Kong-based Canadian company offering services for the past quarter-century to Canadian firms testing Asian markets, says Hong Kong should still be a first port of call for anybody looking to do business in the People's Republic.

"If you haven't been in China before, and really don't understand what doing business in China is all about, then please come to Hong Kong as the headquarters service centre that it really is," she says. The reasons for regarding Hong Kong as an ideal springboard into China are many, she adds, including long-established and functioning laws, police and courts, and Western business practices that act as safeguards for nervous neophyte players in China.

As well, last June's Closer Economic Partnership Arrangement (CEPA) free-trade deal among Hong Kong, China and Macau provides for a broad range of duty-free access into the Mainland from Hong Kong, including better-than-WTO-access in 18 sectors. To sweeten the deal, a Canadian firm can qualify as a Hong Kong company for CEPA purposes by acquiring or partnering with a Hong Kong services company.

"Canadian services companies wishing to establish a presence in China would be well-advised to start from Hong Kong, as they can get much better access from here than they could from Canada or any other location," says McNamara.

"In particular, it's an ideal location for Canadian SMEs. Most of the Hong Kong partners these days are smaller ones, ideally sized to partner with our firms. These partners always speak English and were often educated in Canada, the U.S. or Britain, so they understand our Western ways."

There are more than 200,000 Canadian citizens living in Hong Kong and more than 1,000 Canadian companies represented or doing business in the territory. Of those companies, McNamara estimates 80 per cent are active in China. ■

"I would suggest that exporters look at Hong Kong as a distinct market in itself – and a fairly big market, at that – but not as a means to China."

— **Christine Boutin**
President, Namtrade

ECONOMIC SNAPSHOT

Population: 6.8 million (2002)

Nominal GDP: US$161.5 billion

Total Trade / GDP: 253.4%

Currency: Hong Kong dollar

Merchandise Imports From Canada: US$768.4 million

Main Sources of Foreign Exchange (excl. FDI): Manufactured goods

Largest Merchandise Trading Partner: China (40%), United States (21%)

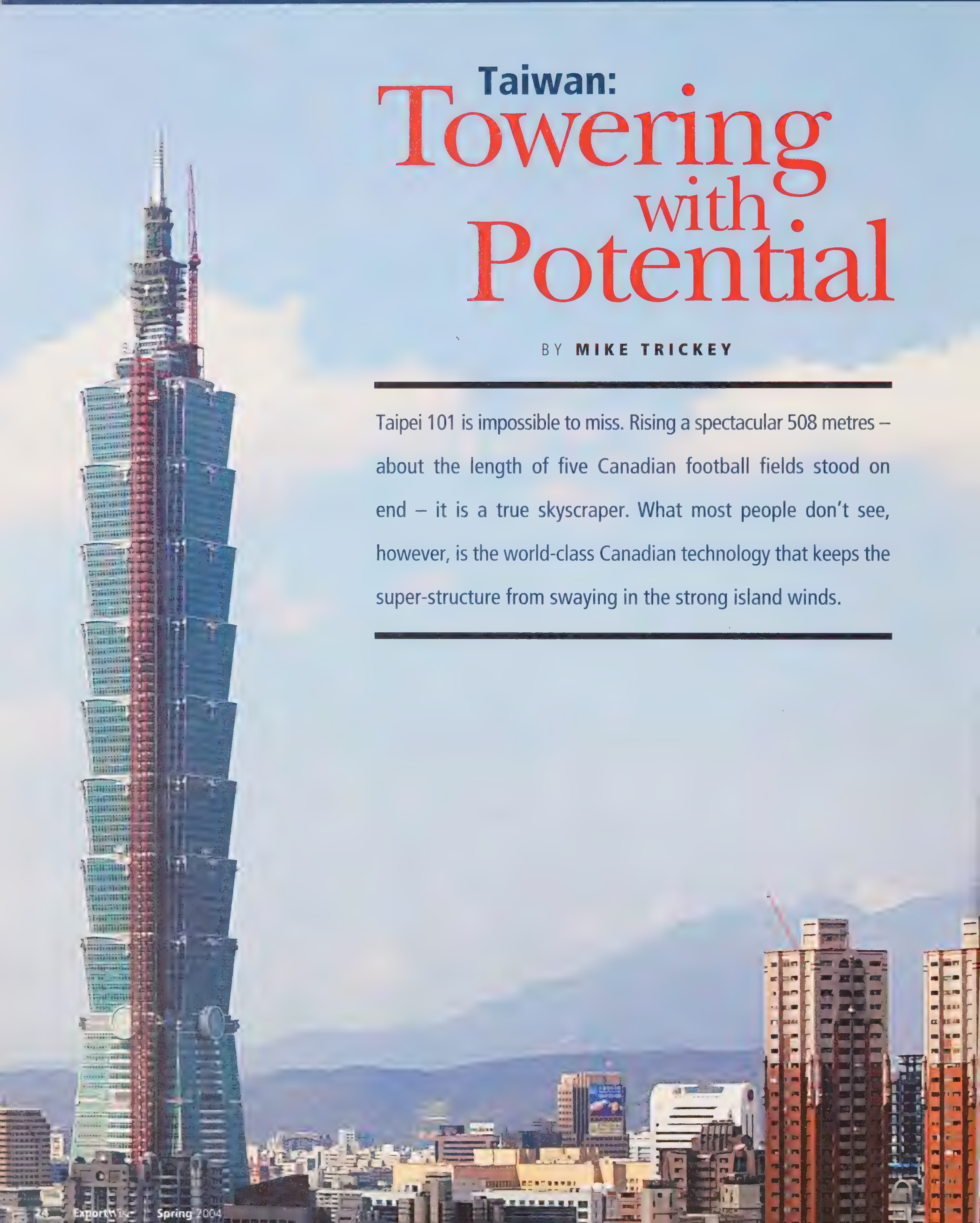
Main Imports: Intermediate goods (40%), Consumer goods (35%)

Risks to the Outlook:

↑
- Capital inflows and a rise in investor confidence are boosting capital markets

↓
- Another extraordinary shock like SARS
- Fiscal deficit

Prepared by Mark Worrall, EDC Economist
www.edc.ca/economics
March 2004



Taiwan: Towering with Potential

BY **MIKE TRICKEY**

Taipei 101 is impossible to miss. Rising a spectacular 508 metres – about the length of five Canadian football fields stood on end – it is a true skyscraper. What most people don't see, however, is the world-class Canadian technology that keeps the super-structure from swaying in the strong island winds.

The Canadian contribution to this island landmark by RWDI of Guelph, Ontario, and its sister company Motioneering, is indicative of the continuing strong Canadian trade and investment presence in Taiwan, says Dave Murphy, Director of Trade and Investment at the Canadian Trade Office in Taipei.

"Even with the stronger Canadian dollar, Taiwan's imports from Canada have seen vigorous expansion across virtually every sector in the past year, led by machinery, pulp and paper, animal and food products, minerals, oils and metals," he says. Canadian exports to Taiwan have enjoyed a consistent growth in recent years, with the island economy buying 25 per cent more Canadian products last year than in 2001.

Despite last year's mad cow scare, Canadian beef exports to the island continued to rise. Taiwan, in fact, is the world's fifth largest consumer of Canadian beef.

"Because of its dynamic and entrepreneurial business community," Murphy adds, "and the very significant currency reserves they control, Taiwan will long remain an important economic partner for Canada."

MOSAID Technologies Incorporated, an independent semiconductor company, has been working in the region for more than fifteen years through a long-term relationship it has with a Taiwanese distributor.

"We have been very successful selling our semiconductor test systems in Taiwan," says Glenn Evans, Senior Vice-President and General Manager of MOSAID's Systems Division. "A key factor in that success was finding and developing a partnership with a local distributor who could not only access the decision makers to close initial orders, but also provide the long-term after-sales technical support that is critical to keeping customers buying our products year after year. With many Taiwanese semiconductor companies expanding into China, our Taiwanese distributor also plays a role in the development of our business in China."

Murphy agrees with Evans that it is essential for Canadian firms to look at Taiwan, not in isolation, but as part of a regional economy that includes the People's Republic of China.

Many see Taiwan and China as oil and water, separate and resistant to mixing. But Murphy points to the ever-deepening economic integration between Taiwan and China, fuelled by the relocation of Taiwanese manufacturing plants to the lower-wage Mainland, and by the estimated one million Taiwanese living on the Mainland managing those investments, as an opportunity for Canadian investors and entrepreneurs.

It is a strategy strongly endorsed by Alison Nankivell, EDC's Regional Manager for China.

"A lot of people don't feel comfortable going in and directly associating and committing to a Chinese partner, but they are prepared to go in with a regional partner, a Taiwan or Hong Kong firm, because they feel those places are closer to our way of thinking in terms of setting up a business. In addition, they can benefit from the know-how the foreign partner has in dealing with China."

Nankivell adds there is little cause for concern over the ongoing war of words between China and Taiwan because of the Island's desire for independence.

"I don't think it will ever be a devastating factor that could unravel your whole China investment strategy," she says. "There are a lot of words, but the fact that it hasn't stopped Taiwan from investing in China says a great deal about the real relationship. When both people win in a relationship, they're much less likely to upset it." ■

"A key factor in that success was finding and developing a partnership with a local distributor."

— **Glenn Evans**
Senior Vice-President and General Manager,
MOSAID's Systems Division

ECONOMIC SNAPSHOT

Population: 22.5 million (2002)

Nominal GDP: US$282 billion (2002)

Total Trade / GDP: 86%

Currency: New Taiwan dollar

Merchandise Imports From Canada:
US$834 million

Main Sources of Foreign Exchange (excl. FDI):
Electronics and machinery exports

Largest Merchandise Trading Partner:
Hong Kong (24%), United States (21%)

Main Imports: Intermediate goods (70%)

Risks to the Outlook:

↑
- Strong U.S. economy
- Robust Chinese economy

↓
- Political tensions with China

Prepared by Mark Worrall, EDC Economist
www.edc.ca/economics
March 2004

Seeking Your Fortune in China

BY JANE DALY

China is keeping people awake at night. Ricky Victor, Vice-President and COO for Beco Industries Ltd., recalls the day when he and Co-President Alan Pinchuk received a phone call from bleary-eyed Co-President Richard Pinchuk at 4 p.m. – which was 4 a.m. in China. "I can't sleep. The potential here is so incredible I've been thinking about it all night," said Pinchuk.

Whether you see China as a land of export opportunity, a cheap labour supply market, or a manufacturing monster that will gobble up western companies, one thing is certain: this awakening giant cannot be ignored. But how does one take advantage of such huge opportunities while avoiding the pitfalls?

ExportWise asked three companies about their experiences with China: Lingo Media (www.lingomedia.com), a Toronto-based publisher of English language learning materials; Beco Industries (www.becoindustries.com), which uses China as a labour supply market for its fashion bedding and comforters; and Propak Systems Ltd. (www.propak-sys.com), a Calgary company that offers engineering and fabrication services to the oil and gas processing industry. Here is their advice on how to seek your fortune in China.

Study, study, study the Chinese market

"We spent five years marketing ourselves in China before our business really took off," says Tony Wu, Vice-President, Engineering, Propak Systems Ltd. "We thought our Chinese clients were only interested in buying brand names from well-known companies, so we focused on marketing our excellence, competitive price and best delivery. This approach was unsuccessful in acquiring contracts."

It was during their successful negotiation of the Pinghu Turbo Expander Plant contract in 1996 that Propak started to realize the importance of truly listening to their client's needs and concerns. "Besides marketing our excellence, we also addressed their unique infrastructure, which is quite different from Alberta's, and their technical requirements. We then designed, fabricated and constructed the plant, paying special attention to these concerns," says Wu. The strategy paid off, as Propak won the Pinghu plant expansion contract in 2002 and another contract for a similar project in 2003.

And although Propak has constructed more than 500 oil and gas processing facilities worldwide and created $80 million turnkey solutions, Wu says they needed to build a history of success in China before they were accepted. Patience has paid off. For the last four years, Propak has conducted $15 to $40 million in the Chinese market annually.

Market and cultural research must be continuous and thorough, agrees Ricky Victor, Vice-President and COO of Beco, which uses Chinese labour to make fashion bedding. The Chinese culture not only differs from region to region and between older and younger generations, but is also changing at a frantic pace. "The best way to truly understand the culture is to have Chinese-born people on your payroll," says Victor. "China will change in the next five years and in the next five minutes."

Michael Kraft, CEO of Lingo Media, says market insight and research are key to success in China.

That includes changes in tariffs, quotas, government regulations and even transport rates. "You need to keep abreast of the laws and make them work for you to improve your bottom line," says Victor. "Marry the advantages of what can be done in China with what you can do in Canada." For Beco that has meant manufacturing comforter covers in China while continuing to manufacture the bulky, transport-costly stuffing in Canada.

> "In 2000, we never dreamed of how much business we'd be doing with China today. Have patience, and concentrate on what you do well."
>
> — Ricky Victor
> Vice-President and COO, Beco Industries

Beco manufactures comforter covers in China while continuing to produce the bulky, transport-costly stuffing in Canada.

Propak Systems won lucrative contracts after years of building a history of success in China.

Have the right product

"Developing products that will fly in the Chinese market takes insight and a lot of research," says Michael Kraft, CEO of Lingo Media. "There's no point trying to sell western-style products that the Chinese can manufacture for themselves at a lower cost. A product suited to the local market is key. The challenge is to develop a product that includes intellectual capital or human capital."

Kraft recognizes two cultural shifts that helped pave the way for Lingo Media's success. The Chinese state government mandated that English language instruction begin in Grade 3, as of September 2001. At the same time, China's one-child rule means that family honour now hinges on the success of a single child, and parents have become obsessed with education.

But as a small company up against multinational publishing giants, Lingo Media had to bring more than just textbooks to the table. "We realized that Chinese students were learning to read English and had acquired excellent vocabularies, but they could not speak it," notes Kraft. Lingo Media worked with the state-owned giant, People's Educational Press (PEP), to co-develop programs that met the national syllabus but also promoted oral language skills. In just two years, Lingo Media has developed more than 140 products and sold 45 million units.

Think relationships, partnerships and joint ventures

All three companies agree that developing relationships in China is critical to doing business there. For Lingo Media, Kraft says that his smartest decision was to join the local Canada Chinese Business Council. It was through this organization that he met and ultimately hired Chen Geng (former Vice-Counsel for the PRC Consulate in Toronto) who introduced him to PEP's Yafu Gong. Today, Lingo Media works tirelessly to maintain relationships with four Chinese publishers and also to develop new relationships with other Chinese publishers and distributors.

Beco is also looking at the value of opening an office in China. "Our biggest challenge is control of timing, resources and quality," says Victor. "The size of the box, where the label goes, and all the things that are important to retailers are not always well-understood by the Chinese. We have outsourced this quality control for now, but it's still not as effective as having your own people there – and they would ideally be Chinese."

Victor says there's also a lot of interest in joint ventures with Chinese manufacturers. "They can give us the supply, while we can give them quality designs and the stores," he says.

In the future, Propak also expects that they will need to bid on projects in partnership with local suppliers or with a design including some supplies manufactured in China. "We believe the Chinese government will want to create job opportunities for local workers and demand as much local content as possible for projects," says Wu.

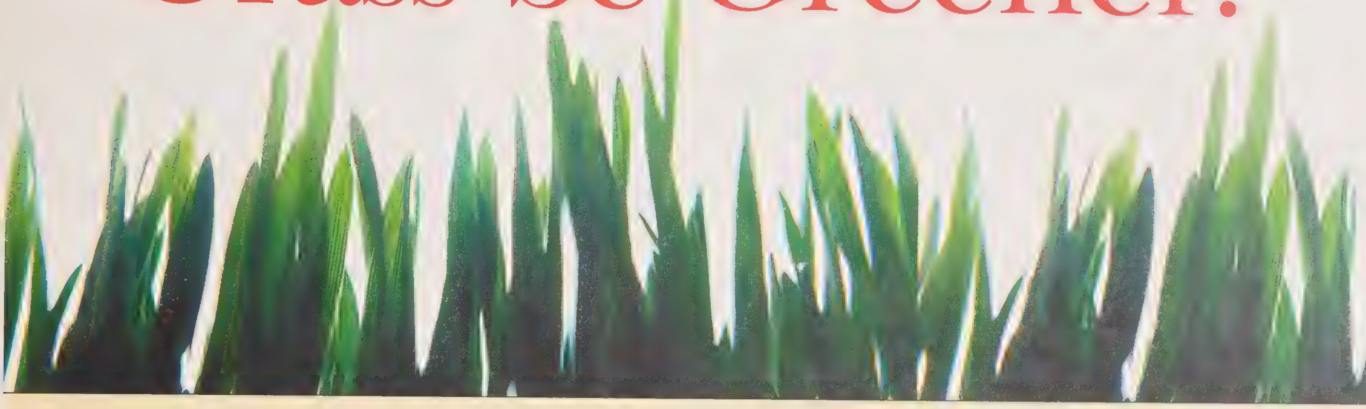
The most important lesson ... be patient

Breaking into the Chinese market or using it as part of your supply chain is challenging and takes plenty of time, money and resources, say all three companies. And while taking advantage of Canadian services such as Industry Canada, CIDA and EDC can help the process along, patience is required.

"We couldn't have expanded our business without help from Canadian government resources such as EDC," says Victor, who adds that he would like to see EDC get involved in procuring capital as well as insuring it.

"In 2000, we never dreamed of how much business we'd be doing with China today," he adds. "Have patience and concentrate on what you do well." ■

Will the Grass be Greener?



BY **TERRI-SUE BUCHANAN**

Often perceived as lagging behind when it comes to addressing environmental issues, China has introduced two new environmental regulations. But the jury is still out as to whether these regulations will be able to significantly curb ongoing environmental damage.

The first of these regulations is the *Cleaner Production Promotion (CPP) Law*, which took effect January 1, 2003. It requires Chinese manufacturing plants to adopt cleaner production technologies to:

- reduce pollutants;
- become more energy efficient;
- reduce the use of toxic chemicals; and,
- implement sound management practices.

For Canadian environmental technology companies, the CPP Law opens up a myriad of export opportunities for their wares. Observers feel that the best environmental export prospects include air and water monitoring instruments, drinking water purification devices, industrial wastewater treatment equipment and resource recovery technologies.

The second regulation is much broader in scope and will have far-reaching effects for Canadian suppliers. Entitled the *Environmental Impact Assessment (EIA) Law*, effective September 1, 2003, this regulates an environmental impact assessment for government planning on:

- land use;
- urban engineering; and,
- natural resource exploration.

The law also requires that the public be consulted if there are potential effects on them, and that their views be taken into account.

While observers applaud the efforts of this legislation, it does present challenges for Canadian suppliers to such projects as the above. "Potential challenges may lie with implementing the legislation. Issues such as preparation of the environmental impact assessment by independent consultants, the thoroughness of the assessment, and the adequacy of public consultation will be important factors," says EDC Chief Environmental Advisor, Art FitzGerald, who notes that assessments can only be conducted by government-approved consultants. However, there are only three Chinese firms with the appropriate certification.

In alignment with the EIA Law, EDC requires that an environmental impact assessment be conducted in accordance with good international practice, including public consultation. If the EIA Law is not followed or if the quality of the environmental assessment is below standard, then EDC will not be able to support that particular deal. FitzGerald also notes that any deal that does not meet EDC's Environmental Review Directive requirements will not be eligible for support on environmental grounds. (To view the Directive, visit **www. edc.ca/environment**.)

Allard Westra, Zenon Environmental Inc.'s Project Financing Manager, notes that "China has certainly taken a step in the right direction towards adopting worldwide standards, but it remains to be seen how stringently these laws will be enforced." Obviously this type of legislation is beneficial to Canadian suppliers of environmental technologies such as Zenon – companies that provide the technology required to meet EIA standards – but he adds that this is only the first step. ■

Freedom to Trade

BY **MARGALIT EDELMAN**

Moments after news filled the press centre that the Fifth Ministerial Conference of the World Trade Organization had ended abruptly and unsuccessfully, environmental groups began cheering.

Photo: © Paul A. Souders / Corbis / Magma

James Shikwati of Kenya's Inter-Region Economic Network (IREN-Kenya) looked on baffled. "It's hard to celebrate when things have stayed the same. Market access has not improved, harmful subsidies remain in place, and tariffs on processed goods such as chocolate or packaged coffee have not been reduced or removed. Farmers in the developing world will continue to struggle against these trade barriers."

Shikwati was an anomaly among the many non-governmental organizations (NGOs) in Cancun because his group supports globalization and free trade. IREN-Kenya and other like-minded groups from around the world were also part of a larger coalition, the "Freedom to Trade Campaign."

Much of the campaign was built in response to the activities of anti-trade protesters, who have been a fixture at many high level international meetings since they first dominated the airwaves at a WTO gathering in Seattle in 1999.

These protestors blame free trade for all sorts of ills – poverty, disease, conflict. But often trade isn't "free" at all. In many poor countries, people do not benefit from the basic institutions of a free society that most westerners take for granted: property rights, rule of law, free markets for exchange, transparent rules and regulations, and enforceable contracts. Without these institutions, people have little incentive to invest in property, and may not even be able to sell or transfer it. When people cannot engage in exchange, they cannot possibly escape poverty, cannot afford better health care, and are more likely to fight with their neighbours.

Though many of the protesters are well intentioned, their actions are not helping those in need. According to Shikwati, "The poor in Africa have absolutely no idea that some idle university students from the developed countries are representing them. In their efforts to stem globalization and restrict trade, these demonstrators by implication seek to stop people in Africa and Asia from enjoying the benefits of science and technology. They have turned poverty into an industry for fundraising money and seeking media."

Shikwati and other members of the campaign argue that the United States and European Union must practice what they preach by liberalizing trade in the area where poor countries have the greatest comparative advantage – agriculture. Many had hoped that the Ministerial Conference in Cancun would lead to drastic cuts in farm subsidies and tariffs, while improving market access for goods from developing countries.

The pro-trade NGOs believe that developing countries should also reduce protectionism.

According to Thompson Ayodele, of Nigeria's Institute for Public Policy Analysis, "Because of trade barriers on the African continent, Africans are more likely to trade with Europeans and Americans than with their own neighbours. Africa's leaders should recognize that to truly empower impoverished Africans, they need the freedom to trade with each other. Eliminating tariffs, quotas and other policies that currently frustrate trade does not require financial commitment or help from foreign governments, it only requires that African leaders sacrifice the protection they bestow on locally vested interests."

Though many of the protesters are well intentioned, their actions are not helping those in need.

Growing globaphobia and job-loss fears are understandable, but opening markets and improving freedom to trade makes it easier for North American entrepreneurs to invest and sell their products abroad, and also gives producers and consumers greater access to foreign inputs and imports. Trade agreements can also help promote economic and political reform and stability, which are crucial to ensuring security in the Western Hemisphere. ■

Margalit Edelman is Media Director of the International Policy Network, London, U.K., and attended the WTO Ministerial Conference in Cancun and the Free Trade Area of the Americas Ministerial in Miami as part of the "Freedom to Trade Campaign" (www.freedomtotrade.org).

An Ounce of Prevention ... a Ton of Business

BY **TERRI-SUE BUCHANAN**

In this age of environmental awareness, much effort is expended to clean up hazardous wastes. The global community is starting to realize, however, that while cleanup is necessary, it is much more cost-effective and environmentally sound to prevent these hazards in the first place.

While some industries might debate the merits of government regulations, geosynthetics manufacturer Solmax International Inc. is a big supporter.

Geosynthetics are impermeable membranes used widely as containment liners. Chemically resistant to a wide range of contaminants, applications include hazardous waste and water management and oil-spill containment for sectors such as mining, agriculture, and oil and gas.

As a leader in the environmental containment industry, Quebec-based Solmax is the only Canadian competitor among 15 global players. North American expertise in this industry is generally higher than in the rest of the world, simply because governmental regulations for solid-waste management came about earlier. Other countries have been slower to adapt, but when they do introduce regulations, Solmax is happy to step in and deliver their expertise, says President and Founder Jacques Côté.

Solmax began exporting in 1989, focusing on the United States. In 1991, legislation called Subtitle D established stringent requirements for municipal solid-waste landfills in the United States, specifically the closure and containment of landfills to prevent further environmental damage after 20 years of solid-waste burial. This helped grow their U.S. market overnight to $3 million in sales. Subsequently, when France introduced new environmental legislation in the early 1990s, Solmax was able to join forces with their French contacts, and grew their European base.

The two most populated countries in the world, India and China, are where Solmax plans to grow its business next.

Each new export market comes through contacts, says Vice-President Marc-André Gervais, coupled with their advanced expertise. They build their name through constant contact with the industry, traveling the world and delivering presentations to various associations and conferences. New opportunities generally arise by joining forces with these contacts. With this growing reputation, they were able to tap into South America, opening offices in Venezuela and Chile in the mid-1990s. Since then, Solmax expertise has led to various projects including containment for mining operations and water and waste management in regions such as England, Ireland, Belgium, Spain, Portugal, Russia, Kazakhstan, Kurdistan, Kuwait, Poland, Oman, Jordan, Qatar, Iran, Israel, Peru, South Africa and Chad.

Their entry strategy is straightforward, says Côté. They identify a local partner first, then train local technicians, provide installation assistance where necessary, supply materials, and provide hands-on support throughout the project. Finding the right local partner is critical, adds Gervais, particularly when the language and culture might otherwise present barriers.

And while the industrialized world in general understands the benefits of containment as a preventative measure, there is still a huge potential market in the developing world. In fact, the two most populated countries in the world, India and China, are where Solmax plans to grow its business next. By targeting these developing markets now, they hope to be actively exporting to them within the next few years. ■

COMPANY PROFILE

Company: Solmax International Inc.
Business: Geosynthetics manufacturer
Established: 1981
Location: Varennes, Quebec
Employees: 100
Annual Sales: $40-$50 million
Exports: 90%
Export Markets: U.S., Europe, South America, Africa, Middle East
Contact: www.solmax.com

Tips From the Top: Winners of the Canada Export Awards

BY TOBY HERSCOVITCH

They are among Canada's most successful exporters and their businesses are as diverse as this country. The 12 winners of the 2003 Canada Export Award were selected from across Canada, based on such criteria as growth in export sales, introducing new products and services, and breaking into new global markets. Here, these savvy exporters share their top tips for international success.

Mega Bloks Inc. – Exporter of the Year

"To succeed internationally, you need a core product with universal appeal, an affordable price range, innovative retail partnerships, dynamic and dedicated local sales teams and a step-by-step approach to international expansion."

Marc Bertrand, President and CEO

Mega Bloks of Montreal is the world's second largest maker of educational construction toys. The company has doubled its annual sales over the past four years and today exports make up about 90 per cent of Mega Bloks' sales – to customers in some 100 countries. **www.megabloks.com**

Extreme CCTV Inc. – Smaller Exporter Achievement Award (presented by EDC)

"Limit your export start to your best, most reliable ... and most differentiated products. Target your market region and then target the likely customers in that region. Once you land those customers, work with them to tailor your product for that market."

Jack M. Gin, President

Extreme CCTV is a leading innovator in the design, development and manufacture of video surveillance systems that operate in extreme conditions – from pitch dark to freezing cold. Based in Burnaby, B.C., the company has operations in Europe and North America, and sales in every continent, including Antarctica. **www.extremecctv.com**

Éditions L'artichaut Inc. – Cultural Achievement Award

"Make sure that you have a unique product and develop it so that it fulfills a real need in your target market."

Ginette Tremblay, President and CEO

Éditions L'artichault of Rimouski, Quebec, publishes lively and popular French-language learning materials. It has found profitable markets in France, Belgium and Switzerland, and has recently expanded into Senegal and Cameroon with new inroads into Benin. **www.editionslartichaut.com**

BHP Billiton Diamonds Inc. – Job Creation Achievement Award

"Entering into any new market requires adequate preparation ... a thorough understanding of the industry structure, your competitors, potential customers and marketplace fundamentals. To implement the plan, you must attract skilled employees and augment this expertise, where necessary, with consultants."

Jim Excell, President and Chief Operating Officer

BHP Billiton Diamonds is majority owner of the Ekati Diamond Mine, the largest private employer in the Northwest Territories, which now produces and sells worldwide about 6 per cent (by value) of the world's rough diamonds. **www.bhpbilliton.com**

Blood Tribe Agricultural Project (1991) – Aboriginal Business Achievement Award

"Our community has worked extremely hard to make our dream of exporting a reality. Through training, mentoring and coaching, and by applying best practices, you can achieve success in many markets."

Chief Chris Shade, President

The Blood Tribe Agricultural Project is the largest irrigation operation in western Canada, which allows for the growth and processing of high-density hay on the land of the Blood Tribe in Alberta. Timothy hay is exported to the United States, Japan, South Korea, Taiwan and the Middle East. **www.bloodtribe.org**

Diamond Aircraft Industries Inc. – Challenging Markets Achievement Award

"Do thorough research on local culture and business practices, get assistance from consular offices and maintain realistic expectations, patience, and the ability to view the transaction from your client's perspective."
Peter Maurer, President

Diamond Aircraft Industries of London, Ontario, produces personal and training airplanes, recognized as among the safest and most efficient in the world. More than 700 of these aircraft are now in use, with 95 per cent of its production sold to the United States and Europe last year. **www.diamondair.com**

Palliser Furniture Ltd.

"Export success depends on focus. Pick your target carefully – this could be a market, country or region – then stick with it and build your programs and systems around that target."
Art DeFehr, President and CEO

Palliser Furniture creates stylish furniture inspired by European designs. Based in Winnipeg, Manitoba, Palliser is Canada's largest assembled-furniture manufacturer, with facilities in the United States, Mexico and Indonesia. Founded in 1944, the company employs some 4,300 people from more than 70 countries. **www.palliser.com**

Lotek Wireless Inc.

"Know what the market wants in a product and focus on developing it. Our own success in foreign markets has come about by combining great Canadian talent with great Canadian products."
Jim Lotimer, President

Lotek designs and manufactures some of the most innovative fish and wildlife tracking systems in the world, which are exported to scientists in some 40 countries. Lotek's 125 highly skilled employees are located in Newmarket, Ontario and St. John's, Newfoundland. **www.lotek.com**

ZENON Environmental Inc.

"Exporting success requires the marriage of product-knowledge people (supplied by the exporting company) with local-knowledge people (either hired as employees or appointed as representatives)."
Andrew Benedek, Founder and CEO

ZENON specializes in membrane-based technologies used in treating drinking water and waste water. Founded in 1980, the company exports more than three-quarters of its products to markets outside Canada. ZENON is based in Oakville, Ontario, and has offices in 11 countries employing more than 1,000 people. **www.zenon.com**

VSM MedTech Ltd.

"In every geographic segment where we do business, our competitive edge comes from knowledge and our commitment to research investments."
Jack Price, CEO

VSM MedTech of Vancouver, B.C., develops and manufactures medical devices for the diagnosis and treatment of neurological disorders and cardiovascular diseases. It is the world leader in the sales of magnetoencephalography (MEG) systems, used in the noninvasive detection of brain activity. VSM sells its products throughout North America, Europe and Asia. **www.vsmmedtech.com**

Forensic Technology Inc.

"Have intimate knowledge of your target market."
Robert Walsh, President

Montreal's Forensic Technology develops high-tech solutions to help police officers solve violent crimes and has forged partnerships with law-enforcement agencies around the globe. More than 30 countries now use FTI's products, most of which are sold abroad. **www.fti-ibis.com**

BW Technologies Ltd.

"You need an excellent team of people who can retain their entrepreneurial spirit as the company grows. This has helped us bring new products to market much faster than other companies in our sector."
Cody Slater, President and CEO

BW Technologies, based in Calgary, Alberta, is a world leader in the design, manufacture and marketing of hazardous-gas detection equipment. BW Technologies employs more than 300 people in Canada, Australia, the United States, the United Kingdom, China and the Middle East. Worldwide sales exceeded $50 million last year. **www.gasmonitors.com**

Canada Export Awards

You could be an export winner too! To enter this prestigious award program, organized by Canada's Department of International Trade with the support of EDC, visit **www.infoexport.gc.ca/awards-prix**.

Border Crossings

BY **BRENDA BROWN**

If you were to ask Canadian exporters to sum up what they think of the service at the Canada–U.S. border, the words 'efficient, streamlined and cost-effective' probably wouldn't be at the top of the list.

But this is exactly what exporters on both sides of the border can expect in two to three years, predicts Gordon Cherry, Policy Manager, Canadian Manufacturers and Exporters Association (CME). "Upgrades in technology, mandatory advanced electronic notification of cargo information, and improvements in border infrastructure will transform the border – making it a more streamlined, green light/red light process."

The fundamental problem is that today's border was not designed – nor is it equipped – to deal with a post-NAFTA economy, adds Alex Lofthouse, Senior Policy Analyst with the Canadian Chamber of Commerce. Staffing and infrastructure problems existed long before the terrorist attacks of September 11, 2001. Heightened security concerns have simply added another layer of complexity to an already overburdened system.

"9/11 shed a spotlight on these issues and now government and industry are working collaboratively to fast-track the solutions, some of which we were already working on," says Lofthouse. "9/11 definitely put a new urgency on things," he adds.

"There's a good degree of political will on both sides of the border to make this happen because, while it's true that more than 80 per cent of our exports go to the United States, Canada is also the major market for exports from 38 of the 50 American states. Job growth and continued economic prosperity on both sides depend to a large degree on how quickly we solve these problems."

And problems there are, in plenty. A recent study conducted at the Fort Erie, Ontario crossing, for example, estimated that transportation delays are costing shippers more than $2.5 million a day at that crossing alone.

One step to reduce delays was the Canada–U.S. Smart Border Declaration, announced in December 2003, which outlines a 30-point action plan and includes expansion of the Free and Secure Trade Program (FAST) and NEXUS. FAST speeds up the screening and clearing of commercial traffic by helping border officials separate the "known and low-risk" from the "unknown and high-risk" shippers. Under this system, importers, carriers and registered drivers are pre-approved. Shipments from these companies are cleared through customs with greater speed. NEXUS allows pre-screened, low-risk travelers (e.g., sales people or a CEO) to be processed with little or no delay. Under this program, approved applicants are issued photo-identification/proximity cards. They too can cross the border in a dedicated lane.

Another answer is Carnet, a service offered through the Canadian Chamber of Commerce to those companies exporting commercial samples, sales tools, professional equipment (e.g. scientific apparatus, theatrical costumes) or products needed for fairs and exhibitions. A Carnet gives companies unlimited access for one year to 58 countries (including the United States) without having to apply for a new permit each time. A security deposit of 40 per cent of the total value of the goods is required, but this is promptly returned when the user is finished with the Carnet if no problems are reported.

"The main requirement for using a Carnet is that what goes in must come out," says Bob Keyes, the Chamber's Senior Vice-President, International. "It's designed to facilitate the temporary importation of goods and it works very well for this purpose because the detailed

paperwork is completed before the goods leave Canada."

But even with the new border programs, frustrating delays can still occur. "The automotive industry runs on just-in-time inventory and manufacturing," Cherry says. "It costs them millions to adjust manufacturing times due to unexpected delays at the border. And even though the Big Three helped develop some of these trade facilitation programs and are now registered shippers, they still get hammered because the infrastructure is not in place to allow access to the FAST lane."

Gone are the days when you could show up at the border with papers in hand, he adds. Filing papers electronically is today's reality. How much in advance depends on what you are shipping and whether or not the goods are staying in the United States or being shipped from there to another destination.

All companies have had to adjust their concept of just-in-time shipments to allow for the new security measures, says Rosemary Marr, Chief Executive Officer of Calgary, Alberta-based Transera International Logistics, an international freight-forwarding firm. The best protection, she says, is to understand the rules that affect your business and make sure that everyone in your supply chain understands them as well as you do.

"Short-circuiting the rules of security, controlled products and export permits is not a competitive advantage," Marr maintains. "Instead, concentrate on doing your homework and build your international reputation as a professional, knowledgeable company. That's the way to bring business and profits through the door." ■

More information

Register for the FAST program at
www.cbsa-asfc.gc.ca/import/fast/menu-e.html

Register for NEXUS by calling
1-866-NEXUS 26 (1-866-639-8726)

Carnet program:
www.chamber.ca, email carnet@chamber.ca or call 613-238-4000

Coalition for Secure and Trade-Efficient Borders
www.cme-mec.ca/portals
(click on Coalition Site)

New Rules for Food Exports to the U.S.

As of December 12, 2003, the United States Food and Drug Administration (FDA) must be notified of all human and animal food, drinks and dietary supplements imported or offered for import to the United States. This prior notice must be received between two to eight hours – depending on the mode of transportation – before each shipment's arrival in the United States. For example, for products shipped by land, two hours' prior notice is required; by air, four hours. There will be an initial phase-in period, ending August 12, 2004, until which time the FDA expects companies to exercise 'good faith' in complying.

As well, most facilities that manufacture, process, pack or hold food for consumption in the United States must now register with the FDA. The new rules also impose stringent new requirements for record-keeping and also outline procedures for "Administrative Detention" of food items deemed to pose a security threat.

Food processors are now required to have an agent who resides in the United States when they register with the FDA.

For information on the Bioterrorism Act, under which these new regulations fall: **www.fda.gov/oc/bioterrorism/bioact.html.**

To register and for more information on border procedures: **www.customs.gov/xp/cgov/import/commercial_enforcement/bioterrorism.**

Canada's Labour Market

Restructuring

BY **STEPHEN S. POLOZ**

Canada created a lot of jobs in 2003, while the U.S. economy was actually shedding jobs. Look for Canada's labour market to undergo a significant restructuring in 2004 as companies adjust to the stronger Canadian dollar.

2003 was a great year for the Canadian labour market, which created 271,000 jobs. Contrast that with the U.S. economy, which lost 61,000 jobs. Such a wide gap in performance is quite unusual, especially given that the U.S. economy grew faster than Canada in 2003.

Is this a good thing? Those Canadians who found jobs in 2003 would surely answer in the affirmative. But there is a darker side to the story. More economic growth with fewer workers means that U.S. productivity growth is outpacing Canada's by a very wide margin. Accordingly, while we should celebrate job creation in Canada, if it means losing the productivity race, the celebration could turn out to be short-lived.

So how did this happen? And what are the implications for the future?

The story begins in 1996, the last time that the world economy enjoyed a sense of normality. Solid economic growth shared by almost all regions of the world, stable interest rates and exchange rates, low inflation – in short, an economist's dream. But 1997 saw the Asian crisis, 1998 the Russian crisis and in 1999 it was Brazil and Ecuador, and so on. This series of crises in the developing world caused global capital to seek the safety of U.S. Treasury bonds, and each wave of capital that washed up on America's shores pushed up the U.S. dollar.

Ultimately, the U.S. dollar appreciated by about 30 per cent against a weighted average of its major trading partners, throwing U.S. manufacturers far offside relative to their foreign competitors. They responded by purchasing new machinery and by contracting out low-value processes to offshore producers. The result? During 1998–2003, the U.S. manufacturing sector shed three million jobs, yet production and sales are higher than ever – a combination that implies a very large increase in productivity and profitability.

Meanwhile, the U.S. economy created nearly eight million new jobs in the service sector during the same 1998–2003 period. Most of those jobs were in well-paid sub-sectors, such as government, education, health care, IT services and financial services. Accordingly, although the labour market restructuring has been difficult for manufacturing workers, it has been positive for the economy overall.

Now, a new chapter of the story begins. The emergence of synchronized and balanced economic growth around the world has coaxed investment capital out of U.S. bonds and back into developing markets. As a result, the U.S. dollar has returned to more normal levels against most other currencies, as in 1996. And those economies that found it easy to compete on world markets during 1998–2002 because their currencies were low must now follow America's restructuring example.

So what should we look for in 2004–2005? A return to positive job creation in the United States and a relatively slow rate of job creation in Canada, especially in manufacturing. Indeed, this pattern is already beginning to emerge: even though Canada saw overall employment growth of 1.7 per cent in 2003, manufacturing employment contracted by 2.4 per cent. Canada's job growth has shifted into services, government, construction and the resource sector.

The bottom line? The return of the Canadian dollar to more normal levels against the U.S. dollar will prompt a significant restructuring of Canada's labour market in 2004, especially in manufacturing. Fortunately, stronger economic growth in the world and in Canada will help ease the pain of adjustment, while helping to create even more employment in other sectors of the economy. ■

Let's Talk Exports

Stephen Poloz, EDC Senior Vice-President and Chief Economist, begins his annual cross-Canada tour in April. Join EDC and its local partners for this in-depth analysis of the world economy by sector and by country. For the event nearest you, visit **www.edc.ca/lte**.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Julie Harrison
jharrison@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative Director
Phil Jones
pjones@insightcommunications.ca

Translation
Anne Tanguay in collaboration with Maguy Robert

Contributors
Peter Brake, Brenda Brown, Terri-Sue Buchanan, Jane Daly, Margalit Edelman, A. Ian Gillespie, Toby Herscovitch, Dennis Jones, Sandi Jones, Stephen Poloz, Veronica Prochazka, Alexandre Reeves, Douglas Reid, Mike Trickey

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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Canada EDC

Letters to the Editor

Editor
Julie Harrison
jharrison@edc.ca

As a loyal reader of your magazine, I have to admit that the Winter 2004 is by far the best issue!

I found it very informative and was really impressed by the flow and coordination of the content and subjects that you covered in this issue. Most important of all the fact that there is a fresh focus on developing countries and markets deserves acknowledgment. I hope that in future issues you could cover the Middle East, Asia and Latin America and the potential that exists in these markets as well.

Congratulations to you and your team!

Best regards,
Ali Borhani
President & CEO
Noramid Corp.
Canada

Editor's note: *You'll find that we have covered the greater China region in this issue. Stay tuned for our upcoming issues in 2004 that will profile Latin America and South East Asia.*

We are interested in setting up a babies-only clothing and shoe business here in Mexico. I recall a story in an issue of *ExportWise* which profiled a Canadian woman who started up a successful business designing and producing high-quality leather shoes for babies. The unique design ensured that the shoes stayed on babies' feet. We would like to know whether we could contact her, look at her products and assess the feasibility of importing them successfully into Mexico since they are an innovative and high quality product.

Sincerely,
Raúl Bermúdez C.
Owner
IMBERCER
México

Editor's note: *We love matchmaking! For other readers interested in Robeez baby shoes, check out the company's web site at www.robeez.com.*

Next issue

We'll bring you the low-down on how to protect yourself from political risks, the latest news on liability insurance, tips on breaking into the Brazil market, and more exporter success stories to inspire you and your business colleagues.

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC's Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC's Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

How secure are your investment loans?

With EDC's Political Risk Insurance of Loans, we offer increased protection for your loans from political and economic catastrophes.

For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC's Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

Perhaps EDC's Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's web site at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

For more information on these products visit **www.edc.ca/financing**

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC's Bid Security Insurance (BSI) and Performance Security Insurance (PSI) which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control such as war.

For more information on these products visit **www.edc.ca/bonding**

Online Services

Want some market insight that will actually help you make a decision?

Check out EDC's EXPORT Market Insight – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, online and anytime, with EDC's EXPORT Check.

Want to export with peace of mind?

Give your foreign buyer time to pay and protect against nonpayment with EDC's EXPORT Protect. Quick. Secure. Affordable.

Need to insure your bid or performance – FAST?

With EDC's e-Performance Security Insurance, apply, accept and pay online for your bid security insurance or performance security insurance, all in a few clicks.

Are you ready to enter the export market?

Test your readiness by completing EXPORT Able?, an online questionnaire to help you prepare your entry into foreign markets.

For more information on these products visit **www.edc.ca/e-services**

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at 1-800-850-9626.

Could you use more working capital?

With EDC's Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC's Simplified Contract Bonding, a streamlined application/approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/sme**

Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Western Canada

Linda Niro
Regional Vice-President

Vancouver
Tel: (604) 638-6950
Fax: (604) 638-6955

Calgary
Tel: (403) 537-9800
Fax: (403) 537-9811

Edmonton
Tel: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel: (204) 975-5090
Fax: (204) 975-5094

contactwest@edc.ca

Ontario

Lewis Megaw
Regional Vice-President

Toronto
Tel: (416) 640-7600
Fax: (416) 862-1267

London
Tel: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel: (613) 597-8523
Fax: (613) 598-3811

Ruth Fothergill
Vice-President
Corporate Outreach
Tel: (416) 640-7615
Email: rfothergill@edc.ca

contactontario@edc.ca

Quebec

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel: (418) 266-6130
Fax: (418) 266-6131

contactquebec@edc.ca

Atlantic Canada

David Surrette
Regional Vice-President

Halifax
Tel: (902) 442-5205
Fax: (902) 442-5204

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Tel: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel: (709) 772-8808
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Companies with annual export sales of up to $1 million can call our team of SME specialists at

1-800-850-9626

Companies with annual export sales more than $1 million can call the nearest region office at

1-888-332-3777

International

Mexico
Doug Fortney
Regional Manager for
Mexico & Central America
Tel: (011) 5255-5387-9316
Email: dfortney@edc.ca

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Noé Elizondo
Regional Manager
Monterrey, Mexico
Tel: (011) 5281-8344-3200
ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone
J. Claudio Escobar
Regional Director for Brazil &
Southern Cone Countries
Tel: (011) 5511-5509-4320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel: (011) 5521-2295-0391
Email: fcustodio@edc.ca

Poland
Dennis Goresky
Regional Manager for
Central & Eastern Europe
Tel: (011) 4822-584-3240
Email: dgoresky@edc.ca

China
Alison Nankivell
Regional Manager
for China
Tel: (011) 8610-6532-3536
ext. 3357
Email: anankivell@edc.ca

Export Development Canada
Head Office
151 O'Connor
Ottawa, Canada K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

eila Fraser, Auditor General of Canada, presents the Auditor General's Award to A. Ian Gillespie, President and Chief Executive Officer, EDC.

"A good annual report enables Parliamentarians to effectively evaluate the performance of Crown corporations."

— Sheila Fraser
Auditor General of Canada

Export Development Canada (EDC) is proud to have won the 2003 Auditor General's Award for Excellence in Annual Reporting by Crown Corporations.

EDC believes that good reporting contributes to accountability and to sound public sector management, characteristics that Canadians expect from their public institutions.

This is the sixth time EDC has received this honour since the Award was established 10 years ago.

EDC's Magazine for Canadian Exporters

www.edc.ca

Summer 200[illegible]

ExportWise

The Brains Behind the Brawn

Construction service exporters win international contracts for their specialized knowledge of complex projects.

In This Issue

Lucia Cochrane, P.Eng.
Project Manager

Investing in Export Success

It is my pleasure to address you in my first column for *ExportWise* since becoming President and CEO of EDC in April. My predecessors Ian Gillespie and, most recently, Gilles Ross have left a very positive legacy upon which to chart EDC's path for the future.

Rob Wright, President and CEO

During the months ahead, I am looking forward to having face-to-face meetings with as many Canadian exporters as possible, to learn about your challenges and how EDC can serve you better.

EDC exists to help Canadian companies seize and prosper from trade and investment opportunities. We continually assess how well our support tools meet the challenges that exporters face in a rapidly changing global economy. For example, it is common knowledge that Canadian companies face productivity challenges, in part because of the lower costs of foreign competitors. One way to address this is for Canadians to invest in commercial alliances, technology partnerships and other elements of global value chains including multinational and regional networks of finance, production and distribution. In fact, Canadian companies invested $57.5 billion in foreign markets in 2004, $1.8 billion of which was facilitated by EDC. EDC is looking at ways to increase its support for Canadian foreign investment, recognizing the tremendous positive impact this has on Canadian exports and productivity.

Productivity gains are attainable through investments in NAFTA countries, and in rapidly expanding and priority markets such as China, India, Brazil, Mexico and Russia – promising

Canadian companies invested $57.5 billion in foreign markets in 2004, $1.8 billion of which was facilitated by EDC.

destinations identified among Canada's trade priorities by the Minister of International Trade in May. EDC is very active in these countries, particularly through our on-the-ground representatives. EDC trade experts are on location and helping Canadians access markets and build relationships in Mexico, China, Central Europe, South America and Southeast Asia. In April, we introduced Peter Nesbitt as our new representative in India.

These regions are quickly gaining the economic clout to influence international trade flows and agreements, and Canadian companies need to be there to stay in the game. A key measure of EDC's effectiveness is the volume of business we facilitate in these less-familiar markets, often perceived to be risky and complicated. We have a good track record of alleviating the risks and reducing the complications – with $11.6 billion in exports and investments to these markets in 2004 – but we have to do more.

Throughout 2005 and 2006, we are sharpening our focus on these priority markets to ensure we have the tools needed to effectively support Canadian companies. So far, we have redefined how we consider the benefits to Canada in the transactions we support, to take into account the realities of global value chains. We are gathering more intelligence about the needs and expectations of Canadian exporters and investors through formal surveys to benchmark our services against the demands of foreign markets. Where we find gaps, we will improve our products and services, or develop new ones.

In all of our endeavours, we will work closely with our customers, our trade colleagues within the Canadian and provincial governments, and with trade associations in Canada and abroad to ensure that Canada's global entrepreneurs have the full complement of support they need.

After all, their success is Canada's success. ■

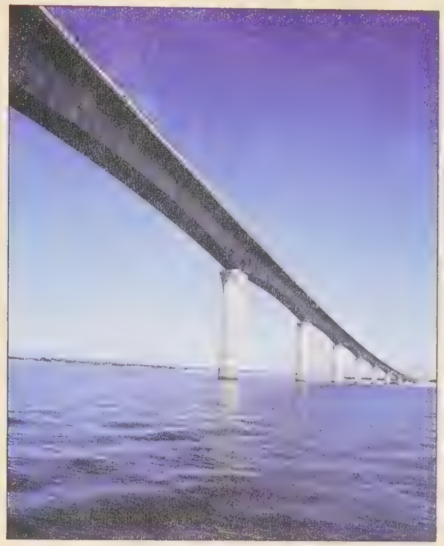
Sincerely,

Rob Wright

Rob Wright
President and CEO

ExportWise Contents

Summer 2005

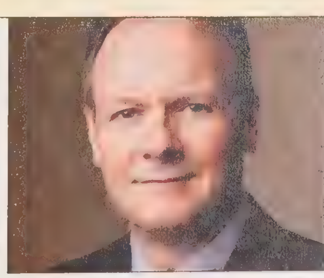


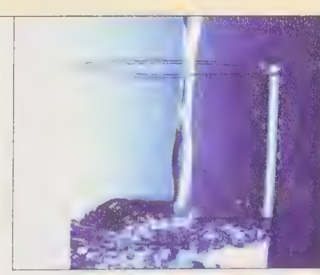
Small Business Solutions

Sector SWOT Analysis

Canadian construction service firms are exporting their capabilities in architecture, engineering, project management and more, worldwide, but face stiff challenges from large multinational competitors.

Country Features





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Inuktun Finds a Niche in Tight Spaces

BY **JANE DALY**

Located in the scenic seaside town of Nanaimo on Vancouver Island, Inuktun Services Ltd. has carved a niche market by creating mobile robotic equipment with built-in surveillance systems.

And these "robotic crawlers" are being purchased or rented for increasingly imaginative applications, from search and rescue missions to seeking out smuggled contraband in pipes near Taiwan's seaports.

"Traditionally, our technology is used where it's too dangerous – or even impossible – for a human to go," says Inuktun's President Colin Dobell. As one example, Dobell describes Inuktun's SEAMOR ROV, which is capable of conducting a variety of underwater and in-pipe inspections to a depth of 300 metres. "By using robotics to do the exploratory work, you can plan ahead and be better prepared to fix any problems before sending in a human."

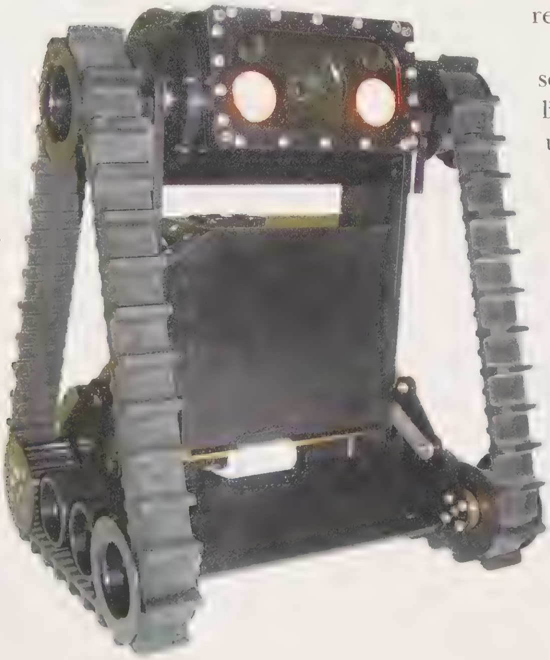


Photo: Courtesy of Inuktun Services Ltd.

The SEAMOR ROV uses new technology that makes it more cost effective and helps to minimize the size of the vehicle, while still having the power to operate at a 300-metre depth. Developing a system that can operate at these depths, while still being operable by one person, were key design requirements.

The same fibre optic technology is now being used to create other more efficient robots. "We try to build technology that's transferable to other applications," says Dobell. The VLR300, a long-range pipe crawler, is one such example. "Generally, pipe crawlers travel for 150 to 300 metres, but this one can go more than 1,800 metres." This system is unique in the world and is currently available through Inuktun's rental program.

Dobell is also looking forward to seeing the robots used to save human lives. After 9/11, Inuktun's crawlers were used to search for survivors in the deep rubble of the World Trade Center Towers. Sadly, none were found, but the robots did discover five bodies, alerting clean-up crews to take greater care in those areas.

"After an earthquake or other disaster, the voids may be too small or the area too unstable for rescue dogs or people," Dobell says. "Robots can locate victims and find the safest route for rescuers to take." The University of South Florida acquired five sytems for their Center for Robot Assisted Search and Rescue.

Dobell notes that an increasing comfort with using technology, as well as new environmental regulations that require pipes and other types of containers to be inspected, is helping Inuktun's business to grow.

"Once a customer makes a decision, we have to ramp up 100 per cent," Dobell says. When Hitachi, in Japan sent a purchase order to Inuktun to supply remotely-operated robotic camera systems to inspect weld seams in a radioactive waste fuel storage area in December of 2002, they were given a two-month deadline.

"The order was US$1 million and this was on top of our regular volume," adds Dobell. "We had to get eight machine shops going for us at the same time." This meant that additional working capital of $485,000 was needed, and Inuktun turned to EDC and HSBC Bank of Canada for help.

"Without EDC insurance to cover our receivables, we wouldn't have had access to the working capital we needed and we couldn't have accepted the job, but speed was important too," says Dobell. "EDC and HSBC fast-tracked the approval process to make it happen and we were very impressed with the turnaround."

Hitachi, the client, was extremely pleased with Inuktun's performance, and added the company to its preferred supplier list. With almost no place too small for Inuktun's machines to go, there's no telling how big its market will grow.

COMPANY PROFILE

Company: Inuktun Services Ltd.
Business: Mobile robotic inspection systems
Location: Nanaimo, British Columbia
Established: 1989
Employees: 41
Annual Sales: $4 million
Exports: 80%
Export Markets: Global
Contact: www.inuktun.com

Photo: Courtesy of Chemposite In

Chemposite Pipes in Opportunities

BY **JANE DALY**

If you've ever thought about getting into an exciting line of work, manufacturing fibreglass tanks and piping for waste management facilities probably wasn't on your list of top dream jobs.

But as Samuel and Sarah Lam's experiences demonstrate, it's not always what you sell, but how you sell it that turns your daily living into the adventure of a lifetime.

After working for a company with a similar type of business, Samuel Lam struck out on his own and founded Chemposite Inc. in 1982. Situated in Port Coquitlam, B.C., when they first began, the company custom fabricated fibreglass tanks and piping for the local pulp and paper industry. Business was brisk and by 1985, Sarah Lam quit her job to join her husband in the new family business.

"Samuel is a true entrepreneur," says Lam. This pioneering spirit helped keep the business going when the pulp and paper industry took a downturn in the early 1990s. "Chemposite diversified into other sectors, including wastewater treatment. At around the same time, we began outsourcing some manufacturing to China so that our prices could compete in the global marketplace. We have technicians on the ground there to monitor quality, ensuring the fabrication is done to our standards."

Exporting overseas began as a gradual process. "We were dealing with some companies in Canada and the United States who were handling overseas projects," Lam says. "We didn't know anything about exporting back then, so doing it through another company made things easier and gave us a chance to learn."

Eventually, Chemposite began contacting international design firms on its own. "These firms manage projects that need our kind of expertise all around the world," she says. It wasn't long before the Lams were travelling around the world themselves, developing equipment for wastewater treatment plants in Singapore, Australia, South America, Thailand, Japan, Korea and many other exotic locations.

In addition to the world travel, Lam says solving challenges also makes their jobs exciting. Shipping is one example. "We manufacture in China, but the site may be four or five time zones away. And our equipment is so large, we've even had to build our own dock to get equipment onto a ship, or hire a helicopter to lift it."

Even though Chemposite has grown into a multi-million dollar company during the last 20 years, they only began using EDC services three years ago. "Dealing in such a niche market, the few players are large and well known," Lam explains. "Their whole business is built on their reputation, so we have not had problems."

Instead, they began to use EDC services to help grow their business. "The projects we were handling began to get very large, and we had to put up a bank guarantee," says Lam. "That's when we turned to EDC. Even five per cent of a few million dollars is a lot of money. Having an EDC guarantee frees up our line of credit so we can use it for other business needs."

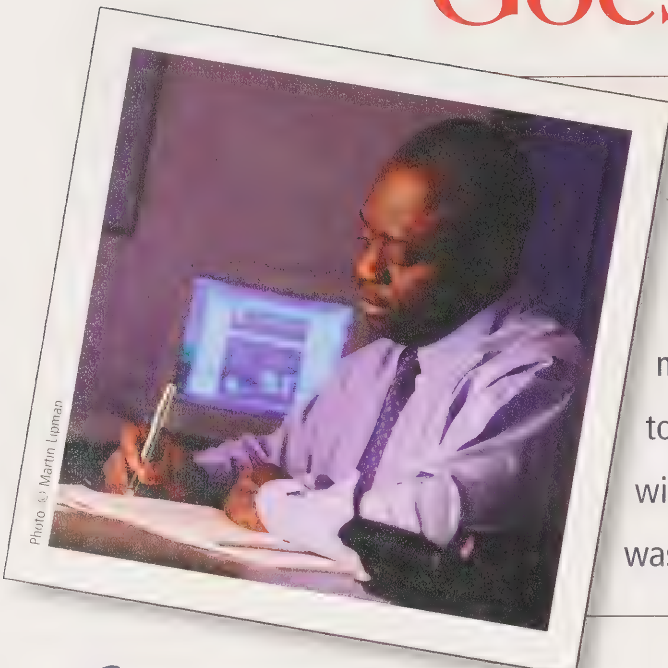
Lam adds that using EDC as a guarantor also helps give the company credibility. "We are just strangers from a foreign country to buyers in another land," she explains. "Being covered by a government-backed agency such as EDC gives our customers more confidence in us." ■

COMPANY PROFILE

Company: Chemposite Inc.
Business: Custom manufacturer of fibreglass equipment for industrial use
Location: Delta, British Columbia
Employees: 20 to 25
Exports: 50% +
Export Markets: Varies, but includes Asia, North America, South America and Eurasia
Contact: www.chemposite.com

Diary of an Exporter, Part 3

Clinotech Goes Global



BY **DENNIS** AND **SANDI JONES**

In Part II of the Diary of an Exporter, we followed Dr. Harrison Ofiyai as he expanded Clinotech's operations into Greece and Bulgaria, as well as Jordan, Iran and other Middle Eastern markets. By now the company had hired its first employees to help handle the increasing volume of business and deal with its rapidly multiplying number of distributors. But that was just the beginning …

Spring 2001

When the year started, I felt that our markets in Turkey and the Middle East were solid, especially since we'd picked up new distributors in Saudi Arabia and the United Arab Emirates. So I decided it was time to work on the other two markets I'd been thinking about – Africa and Latin America.

When I looked at Africa, though, I realized that the region lacked effective communication networks, and that I'd be wise to put the African markets on hold until cell phone and Internet services improved. So I went after Latin America, and it's worked out well. I contacted friends and colleagues to find distributors and the network came through for me again – Clinotech is now operating in Guatemala, Bolivia, Paraguay, Uruguay and Chile!

The only two places I didn't manage to crack were Mexico and Brazil. Mexican distributors are very close to their U.S. suppliers and aren't in a hurry to find new ones, so I decided to bypass that market. In Brazil, the problem was the time we'd need to get our products approved – it would take six to 12 months for a distributor to complete product evaluations and set up distribution, so I put Brazil on hold as well. But the other Latin American markets have more than made up for it.

Summer 2001

We're still expanding in Latin America, adding Peru, Columbia and Venezuela to the places where Clinotech does business. Venezuela was an especially quick breakthrough – we got two distributors there almost immediately.

Participating in medical trade shows every year has been key because it always leads to more contacts. But the main reason we're doing so well, I'm sure, is because of our loyal distributors and the quality of our product.

I think we're ready for the next big step: setting up our own factory so that we can buy our basic raw materials, like antigens and purified monoclonal antibodies, and manufacture our own diagnostic kits from scratch. We now have the sales volume to justify this, and at this point I don't think we can afford not to do it. Already we've had to turn down some tenders because our contract manufacturers couldn't promise to fill the orders in time – not that it's their fault – they have their own distributors and programs to take care of, and priorities sometimes conflict.

Before we even think of opening a factory, I have to talk to the bank about financing the start-up costs. If the bank agrees to support us, I'll have to find a suitable building to lease. Then we need to buy production equipment and make sure there are reliable sources for our raw materials. The devil is in the details, as they say.

Fall 2001

I've put the factory financing in place through Mr. Rakesh Vig, our Relationship Manager at the BMO Bank of Montreal's main office in Richmond, B.C. He's arranged a line of credit through the bank, along with a loan under the government's Canada Small Business Financing Program. The loan is for equipment only, while the line of credit will help us get our manufacturing operations underway.

Now that the financing's set up, I've been able to look for a building to lease. We've found a good prospect, about 1,800 square metres of high-tech space. It also has good humidity control in the production area, which is essential. The kind of business lease I'm after usually runs for five years, but I'm going to ask for two years. I want us to stay flexible, since we're aiming to move into our own facility, perhaps in two years if everything works out.

I'm also hiring staff. I need managers of business development, quality control, production and marketing. Senay, my wife and partner, is taking a training program so she can coordinate production, quality control, staff training and business development.

Winter 2002

We started production in our new factory this January. I've been travelling less since then, so I can concentrate on production, quality assurance and all the other details that come from being a manufacturer.

Having our own factory is definitely paying off. We've got a lot more operational flexibility, we're independent and can be more committed to customer service. Before, we sometimes had to refuse orders because we couldn't guarantee the delivery date. But now we can run extra shifts and longer hours whenever we need to. It's improving our business opportunities.

Spring 2002

The transition to operating our own factory is pretty well complete. The companies who were supplying Clinotech before we went into production for ourselves helped by giving me all kinds of support and encouragement during the past few months. This made the transition a lot smoother than it might have been.

In fact, this has turned into another opportunity for Clinotech. Some of these manufacturers don't produce some of the items their customers need; Clinotech can now do it for them.

Summer 2002

Our in-house operations have progressed quickly since the beginning of the year. Most of our business development – looking for new market opportunities, trade shows and potential customers – is being handled by our business development team. The marketing department is dealing with the distributors in

Photo: Courtesy of Clinotech

our established markets, including invoicing and shipping arrangements as well as customer service. I've now reached the point where I'm mainly overseeing our operations, coordinating production, keeping on top of quality control and supervising business development and marketing. It's all going smoothly.

Fall 2002

It's a good thing I'm energetic and like to keep things moving. Visiting my target markets is one of the things I enjoy most – it's business travel, naturally, but it's also a great pleasure to see different parts of the world and meet all kinds of people. So, in spite of the long hours, the travelling is a bit like a holiday, too.

And it pays off. We're expanding into the North Pacific Rim by our usual tactics: making ourselves available at medical trade shows, talking to potential distributors, working through my medical colleagues and using the Internet. So far, we've found distributors or possible distributors in Indonesia, Malaysia, Vietnam, the Philippines, Thailand and Singapore.

December 2002

We've been receiving a lot of orders and production is going at full speed. One major event: I went to Germany in November for MEDICA, the world's largest medical trade show. Being there was especially gratifying for me, because it was the first time we'd participated in the show as a full-fledged manufacturer.

Now I have to follow up on all the new leads from the show. Some of the European and U.S. exhibitors at MEDICA have asked if we might be capable of doing contract work for them on some specific products we manufacture, which they don't have. That means lots of meetings to evaluate their capacities and to tell them about our technical specifications for those products, so I'm going to be very busy in that area as well.

When I look back, I can hardly believe what we've accomplished during the past two years. We have more than 30 distributors in 30 different countries, from the Middle East to Latin America. And we have our own factory. And there's lots more to come! ■

Stay tuned for Part 4 of Diary of an Exporter, *coming in our Fall issue. To learn more about Clinotech, visit www.clinotech.com.*

Small Business Perspectives

Land of Opportunity … & Challenges

BY **JANE DALY**

"Thinking of the United States as simply an extension of the Canadian market can be a mistake," says Jayson Myers, Chief Economist of the Canadian Manufacturers and Exporters Association (CME). "While there are a lot of advantages to exporting to the United States, it's still a foreign country, and companies would be well advised to take the proper precautions."

John Vincent, Managing Partner of Universal Motion Inc., an EDC customer for receivables insurance, would no doubt agree. Described by Vincent as "the little Canadian company that could," Universal Motion had no problems succeeding in the Canadian market, thanks in part to an innovative wheelchair lift for vans invented by Zoran Danilovic, one of the three founding partners. Unlike conventional drawbridge-style lifts, Universal Motion's Inflor™ slides horizontally in and out of the floor of a vehicle, so it "disappears" when not in use. "During crash tests, it was noted that our lifts don't obstruct the doors or block passengers from getting out of the van," says Vincent. "Also, the weight of the lift is not all on one side, so the vehicle is better balanced."

Based on this success, the company quickly grew from the three founders to 14 employees, and expanded to offer a variety of wheelchair accessible conversions for both driver and passenger applications, including wheelchair accessible vehicles for individuals, families, taxicabs, mass transit and the bus industry. And it wasn't long before the company

began to attract attention from companies in other countries, including the United States While at a trade show, they were approached by a large American company to make customized lifts for a line of electric buses.

"The project required a lot of research and development, and for a small company this was lot of money for us to put out," recalls Vincent. "So we did our due diligence. We met with the company, did a credit check and asked for a deposit before any of the work began." And when the lifts were finally finished, Universal Motion asked for a cheque covering the balance before the product was shipped.

But the cheque never arrived. Instead, Universal Motion received a letter informing them that their customer had gone bankrupt. Worse, they discovered that because they had never actually shipped the lifts, their receivables insurance didn't cover the loss.

"In the end, we were able to find out who they were making the buses for, and we recouped some of our R&D costs by selling the lifts directly to them," says Vincent. "But it took a year to do that and we still lost some money. Had we been aware of what we needed to know in dealing with the United States, we could have prevented a major headache."

Experiences like the one faced by Universal Motion aren't unusual. Recently, the CME conducted a survey of 2,500 companies to uncover problems these companies had experienced when exporting to the United States. Myers summarizes and explains what the main challenges are:

- Border delays, related to customs documentation or increased security.
- Restrictions on certain industry sectors (e.g., beef and lumber).
- "Buy America" policies, which cut Canadian suppliers out of the running unless they establish a presence in the United States.
- Outdated (NAFTA) rules of origin. "As more and more companies are doing business globally, it's not unusual for a manufactured product to have at least one component that was made in another country," Myers explains. "Then you run into problems with regulations about what constitutes the country of origin."
- The high cost and availability of liability insurance. "Litigation can be costly if something goes wrong with the product you sell."
- A need for more harmonized regulations between the two countries. As an example, Myers points to product labels. "Because there are different regulations governing the way ingredients are listed, it can require two print runs – an expensive proposition for small businesses."

Myers adds that smaller companies may need to be especially vigilant. "The resources of smaller companies may be limited compared to those of a larger company, which may have specialists on staff or be able to pay for expert advice."

But there's also good news. "Companies have to be knowledgeable about what they're doing, but it's impossible to mitigate all risks. That's why associations such as CME exist. We're always happy to help."

Another resource is the Business Development Bank of Canada (BDC), a Crown corporation that provides financing, investing and consulting services to small- and medium-sized businesses. "We can advise on human resources and operations management, quality assurance, and strategic planning through our 85 offices across the country," says Bruce McConnell, BDC's Vice-President of Consulting. "We also have 100 broad management advisors and use 500 external consultants for a national, organized network of resources, which covers all industry sectors. Working with a team, we can build a plan to strategically play on the company's strengths."

There are a number of issues to consider when exporting to the United States. "Some deal with logistics: getting your product there, your supply chain, whether your product has a stable shelf life," McConnell adds. "Other issues are more strategic. Does it make economic sense to have a presence in the United States? How do you leverage market penetration? It can all seem quite daunting at first, but once you know what you're doing and establish a process, it becomes second nature, like breathing."

And breathing easier is exactly what Universal Motion's John Vincent is doing these days. "We had our share of pitfalls dealing with the United States, but we've learned from experience and have had a lot of success. My advice to any company thinking of going south of the border for business would be to take advantage of EDC and its resources. You'll be glad you did."

EDC helps in a number of ways

EDC Claims Advisor Dan Ross says certain states tend to favour the local creditor over a supplier. These include Florida, California, Ohio, and Michigan, among several others.

Ross cautions that U.S. bankruptcy laws are also different. "Under 'Chapter 11,' the company that has filed for bankruptcy can still continue to operate." Alarmingly, a Canadian supplier may even have to repay monies received within the previous 90 days from a company that has gone bankrupt, and the U.S. trustee can even go after the suplier through the Canadian court system to get the money back.

To protect themselves, Ross says Canadian businesses should consider EDC's Accounts Receivable Insurance noting that "regardless of the reason for non-payment, this policy covers Canadian exporters for debts owed to them in the normal course of business." Ross also suggests that company representatives should attend EDC seminars held across the country, as they provide a more in-depth exploration of the risk management products EDC offers. Finally, Ross cautions exporters to carefully document all aspects of their transactions.

"Contrary to popular belief, an invoice is not evidence of a debt owed. A buyer can say he or she ordered something that was different than what was received, and refuse to pay. No matter how good or long-standing your business relationship is with a client, document in detail exactly what is being purchased, and ensure you have something from the buyer agreeing that this is what they have ordered. By taking the right steps, Canadian businesses can benefit enormously by tapping into one of the largest and most dynamic markets in the world." ■

Miller Contracting:

Unearthing Export Opportunities

Photo: Courtesy of Miller Contracting Inc.

BY **CRESSIDA BARNABE**

Companies involved in dredging rivers or harbours faced a dilemma in 1990. Even skilled operators could only dredge as close as half a metre to the grade they were targeting. And new regulations meant that any extra soil they removed had to be taken away – yet one more expense to add to the equation. This meant contractors had to find a more accurate way to dredge... or face losing money.

Enter Miller Contracting of Delta, British Columbia, which provides: sediment removal or excavation of contaminated soils; capping, closures and containment berms; precision excavation and placement; dam and levee improvements; and water quality monitoring and materials handling. The company saw the change in regulations as an opportunity to develop a unique hydraulic clam shell, equipped with the latest survey and position systems, at a cost of $2 million. Using computer technology, an operator using the hydraulic clam shell can place the bucket within five centimetres of grade, whereas even a skilled operator using a cable controlled bucket can only get within half a metre.

Developing the technology was the easy part for Miller Contracting. The company was soon faced with another challenge ... where to use it. "We developed the technology for Canadian use but the local market went flat, so we said, 'okay, let's see who else might need our services,'" explains President John Miller.

After carefully assessing the opportunities, Miller Contracting started exporting its services to the United States 10 years ago when precision rock placing was needed in Washington. The business expanded throughout the Puget Sound area of Washington to include precision dredging and precise capping of contaminated waterways. Today, the company has an office in Bellingham, Washington, and exports account for 100 per cent of its business.

But the move into exporting wasn't easy. "Getting pre-qualified to do work in the United States was a major hurdle," says Miller. "We decided to market ourselves as a niche business that would help local contractors that were already pre-qualified. We started by acting as a supplier, and then as a sub-contractor to other contractors that didn't have our capability. This business arrangement wasn't a threat to them and we started building business relationships with contractors, engineers and owners."

Slow and steady wins the race

This strategy has resulted in winning contracts as the prime contractor to perform environmental clean-up projects around Puget Sound. However, this success has not driven them to expand into new markets. Miller explains his philosophy: "Doing business in the United States can be challenging so we're focused on slow growth. If you grow too fast and start stepping on toes, it can backfire because American companies are very protective. We've developed some solid relationships with other contractors and on occasion we now even compete against them; but it's okay because we have taken years to develop relationships built on trust and mutual respect."

Miller Contracting hit another common roadblock when its Canadian bonding company said it wasn't comfortable issuing bonds for work in the United States. "Fortunately our insurance broker thought EDC would have a solution and so we set up a meeting," Miller recalls. "EDC was comfortable taking on the risk, and from day one, provided surety reinsurance to our bonding company, providing them with a guarantee of payment if the bond was called by our buyer – for whatever reason. EDC has proven to be a great partner for us." ■

COMPANY PROFILE

Company: Miller Contracting Inc. (Subsidiary of JJM Construction Ltd.)
Business: Dredging and marine construction
Location: Delta, British Columbia; Bellingham, Washington
Established: 1992
Employees: 2-50 (project dependent)
Exports: 100%
Export Markets: United States
Contact: www.jjmconstruction.com

Construction Services:

Building Bridges ... and Everything Else

BY **DENNIS** AND **SANDI JONES**

An architectural company in Vancouver sends a bridge design to Chile. A Toronto firm works with an Israeli consortium to build a cross-Israel highway. A Montreal company sends a management team to oversee the construction of a hydroelectric project in India. Welcome to the world of Canada's construction services exporters.

At your service

Construction services cover a lot of ground. Among them are architectural and engineering services, project management, equipment and materials procurement, construction management and project financing. Because they're relatively portable, they've given numerous Canadian construction companies a natural entry point into the global market. Firms such as SNC-Lavalin, Dessau-Soprin, EllisDon and Aecon have all taken advantage of this to become service exporters, despite the fact that Canada, from an international perspective, is a relatively small player in this arena.

"Our companies, even those that are large by Canadian standards, are dwarfed by some of the U.S., European and Asian firms," notes David Stewart, EllisDon's Director, International Projects. "But even though we can't provide the on-the-ground labour force required for major overseas projects, we're internationally known for supplying our customers with specialized, top-quality, construction project management services and systems. You might say that we export brains rather than brawn. That's where our opportunities lie."

Economic dynamo

On the international side, the sector can claim some substantial numbers. "For 2003," says EDC Senior Economist Jean-Louis Renaud, "Statistics Canada reports that the total export value of the sector was $3.4 billion. That consisted of $2.4 billion in architectural and engineering services, plus about another billion for various types of technical services. For 2004, the total was even higher – $3.6 billion in exports overall."

Domestically, the sector is also vitally important to Canada's economic well-being. "The construction industry is the largest industrial employer in the country," observes Michael Atkinson, President of the Canadian Construction Association (CCA). "During 2004, the sector's gross output – that is, the value of all production plus the value of all related input costs, such as labour and equipment – reached $163 billion, about 12 per cent of Canada's entire Gross Domestic Product."

The sector is also extremely productive, Atkinson notes. "KPMG, the global consulting firm, put out an international survey in 2002 that studied the costs of building an industrial facility in nine countries. This included construction costs, government development charges and soft costs. The survey ranked the Canadian construction industry as the second most productive. Italy was first and the United States was fifth."

Productivity, efficiency and technical expertise are, obviously, among the major characteristics of Canada's construction industry. In an export context, how do these strengthen our ability to compete with the giant firms of the United States, Europe and Asia?

STRENGTHS

Keeping it complex

"Canada is especially strong in complex and specialized construction," says Stewart. "There are plenty of companies in our export markets that can build ordinary shopping malls, apartments and office buildings. Moreover, our costs are higher when we operate overseas, so we can't be competitive with these kinds of structures. Where Canadian companies are competitive, however, is in projects that aren't run-of-the mill, such as airports, hospitals and laboratories."

However, as Stewart hastens to point out, office blocks and shopping malls aren't always simple. "When I say we're strong in complex construction, that would apply to a 100-storey office tower, or to a mall that puts 200,000 square metres under one roof. EllisDon, for example, is known for building performing arts centres, and we're working on a large one in the United States right now. Airports are another great example – how do you keep an international airport operating while you're tearing it apart, and maintain its safety and security at the same time? Not everyone can do that, but Canadian companies have become very good at it. It's complex, time-sensitive projects like this that can present us with our best opportunities."

Atkinson agrees that we're strong in various specialized areas. "Canada's export of architectural, engineering and project management services has always been significant. We also tend to be accomplished in areas where there's a strong Canadian market to sustain domestic activity. Back when we were building hydroelectric megaprojects in Canada, for example, we were exporting that expertise to countries in South America and elsewhere."

Another important strength, says Stewart, is the high reputation that Canada's construction exporters enjoy in the countries where they do business. "Our foreign customers know that we have access to the same advanced technologies that American and European companies do. Moreover, we have a record for honesty, for treating people well and for negotiating fairly. I think Canada's multicultural makeup makes us more adaptable than many other countries, and that certainly helps us when we're working in foreign markets."

Canada's strengths in the construction industry:

- Highly educated and experienced engineers and construction management personnel
- Competitive in complex and specialized construction
- Experience building in harsh climates
- Reputation for speed and quality

Climate control

Canadian construction companies have also derived strength from being forced to deal with Canada's harsh climate. We must routinely create structures to withstand temperature swings of 60 degrees Celsius, and this has made us good builders. "In fact," says Gerry Russ, Senior Vice-President, Construction Services Division at Aon Reed Stenhouse Inc., "it would appear that the vast majority of Canadian contractors can build better and quicker than most non-Canadian ones."

Russ should know, since Aon Reed Stenhouse provides risk management and insurance services to a large proportion of our construction industry. "Canadian builders' timelines tend to be compressed because of our climate," he adds, "so we're very disciplined about getting projects covered before winter comes. That gives us an advantage over just about everyone else, because we have to know how to hit those timelines or our productivity falls through the floor."

WEAKNESSES

Limits to growth

So why aren't Canadian companies going nose to nose with the American, European and Asian colossi and beating them at their own game?

One major reason, says Stewart, is that Canadian construction services firms are small by international standards. "This means that there's a limit to the size of projects that Canadian companies can consider," he points out. "We're *technically* capable of doing multibillion-dollar projects, but taking them on demands the commitment of a huge number of people and a huge amount of money. The financial requirements alone are outside the ability of most Canadian firms to handle, and the relatively small size of our companies means that we often don't have access to enough qualified people. In fact, our industry is short of people at home, let alone having a surplus to send overseas."

Small size also weakens us in the global market because we don't have the capacity to take a full-service approach to very large projects. According to Atkinson, the biggest European and Asian companies can integrate everything a customer needs into one package, including design, procurement, construction and management. Such a company may even have its own bank to provide financing and guarantees, and may also be working in a big way with its national government. Canadian companies simply don't have this degree of integration or support.

Show us the money

Russ feels that lack of financial capacity is another major weakness for our construction services firms. "That's true even when you use bonding," he says. "Once you go offshore and have to start providing letters of credit and similar instruments, things start to get more difficult. Also, too many companies try to do things by themselves instead of using joint ventures, local partners and various other strategies to get the help they need."

A further weakness in this area is the difficulty that Canadian builders can experience in getting stakeholders, such as financial institutions, to support them adequately. For example, a bank can be reluctant to lend money to a builder if the builder's receivables are tied up as trust funds for paying subcontractors — it's not the builder's money, in the bank's view, so the institution may be unwilling to lend against it. Canadian construction companies might find it easier to build their financial capacity and take on larger projects if this reluctance diminished.

What can we do to overcome these problems of small size and lack of capacity? One approach, David Stewart believes, is to concentrate on what we do best. "For example, EllisDon can't compete against the Asian companies with their vertical integration. But Canada's educational system produces some of the world's best engineers and construction management personnel, so where we can compete is in construction management and project management services."

Impediments to Canadian competitiveness in the global construction marketplace:

- Financial requirements
- Access to enough qualified people
- Lack of capacity and inability to provide "full-service" on very large projects
- Competition from conglomerates in the United States, France, Germany, Japan and Korea
- Growth of domestic skills and experience in developing markets

Opportunities to capitalize on:

- Complex and specialized construction projects such as airports, hospitals and laboratories
- Architectural, engineering and construction & project management services
- Sustainable technology
- Hydroelectric mega-projects
- Public-private partnerships (P3s)

Opportunities from the ground up

Some of the greatest export opportunities for Canadian construction services companies exist in foreign public infrastructure projects such as roads, airports, seaports, schools, universities and power networks. The demand for new or upgraded infrastructure is skyrocketing all over the world, and Canadian companies are already involved in projects from Ukraine to Korea. Other possible niches lie in the retrofitting of existing structures to make them more environmentally friendly, and in building environmentally sustainable systems for such necessities as water supply and waste disposal.

One unalterable fact is that the domestic growth of our construction companies is limited by the size of the Canadian market. If growth is to come, therefore, it will have to be through the pursuit of fresh international opportunities. Given the growing trend toward sustainable development and toward achieving other environmental objectives, Atkinson thinks that some of these new horizons and opportunities will appear as a result of a greater focus on the lifecycle costs of structures and facilities, as opposed to their initial capital costs.

"This will require a change in the mindset of the owners," he says, "because they may have to accept increases in a building's capital cost in order to meet certain environmental or energy reduction initiatives measured over the useful life of a building or structure. The corresponding domestic need for Canadian contractors to meet these new environmental challenges will produce new ideas and methods that will be exportable to other markets."

That kind of innovation is an area in which Canadian companies can find opportunities, says Renaud. "Canadian firms can bring technical savvy to a project that others may not," he observes. "For instance, we know how to build structures for demanding conditions. This sort of quality has a premium, and if it's recognized, people will pay for it." In other words, a Canadian company that can make a name for itself in a particular niche, such as sustainable technology, may be able to compete with much larger firms that don't enjoy the same reputation.

To P3 or not to P3

Availability of funds, however, will tend to dictate which opportunities Canadian construction firms can undertake. Here, public-private partnerships (P3s) may offer needed resources. Says Russ: "P3s are an opportunity, because developing our ability to do them right may expand into offshore sales. Right now there are a lot of these partnerships going on in Canada, and once we learn to do them consistently and well, we should be able to export our services in this area."

Stewart agrees that P3s offer many opportunities, especially in the public infrastructure market. "I think that Canadian companies have a great opportunity to help develop infrastructure according to a public-private model, as long as the environment and the legislation of the buying country are right. But it's essential for us to use the help the federal government's trade commissioners can provide in these markets – they can let us know what's going on there, so we can identify an opportunity very early. If we don't find out about a project until it's advertised, it's usually too late for us to get involved."

THREATS

Looming giants

The direct foreign competitors of Canada's construction firms are the big American, French, German, Japanese and Korean conglomerates. All have an edge over us in size and vertical integration; some are so enormous they have their own steel mills, concrete plants and shipping lines. This allows them to offer services beyond the capacity of Canadian firms, whose work is restricted to the actual construction of buildings and facilities. "Nobody here can compete with the big foreign multinationals," says Russ. "The financial bases of the Germans, for instance, are huge; we're talking billion-dollar-equity companies."

Moreover, in Russ's opinion, the pool of competitors is going to get bigger. "Thirty years ago, if you went to a developing country, you'd find European and American companies building things. But now the locals are learning those skills, and this has enabled them to create their own infrastructures. So they don't need outside expertise as much as they used to, and while their abilities aren't necessarily mature yet, they're getting there." Which means that Canada will eventually be competing not only with the multinationals, but with strong and effective local companies as well.

In both the long and the short term, it must be recognized that the international market for construction services isn't an easy one. "Do we see international work as a big opportunity for contractors?" asks Russ. "Absolutely. But we also see it as fraught with risk. For example, we currently deal with 32 companies working on both sides of the Canada-U.S. border. Of those 32, only three make money in the United States. The successful ones follow a structured model that centres either on finding a specific client to deal with, or on locating a partner to teach them what goes on in the local marketplace."

How to reduce the risk of impending threats:

- **Financing** – offer flexible financing options to your buyer
- **Bonding** – to help with the bid and project stages without impacting your line of credit
- **Insurance** – to increase your working capital and ensure payment if something goes wrong
- **Partnerships** – cooperation between Canadian consultants and Canadian construction services firms could help lower business development costs while companies grow

Sharing the wealth

How can we best deal with these threats? "Services such as EDC's can be a great help to Canadian exporters," says Atkinson, referring to the broad range of assistance EDC offers – financing for the buyers of Canadian construction services, for example, as well as bonding to help with the bid and project stages, and insurance to ensure payment if something goes wrong. These services reduce companies' risks while helping them obtain the capital they need to take on the work in the first place.

Because of the size issue, too, our construction services companies can't be all things to all customers. But increased cooperation among firms can help identify where our efforts could best be concentrated. In this regard, says Stewart, "There's nothing wrong with a Canadian consultant letting a Canadian construction services firm know when they've secured a project. It gives us an opportunity to talk to the client early, and that's immensely helpful. Conversely, if someone asks us to design an airport – something we don't do ourselves – we suggest that they talk to consultants we have worked with and would be happy to work with again. Offering a cohesive package in this way helps us get bigger and helps lower some of our business development costs."

SUMMING UP

Rising fortunes

Are Canada's construction services exporters rising in the world or falling in it? In many ways, it seems clear, we're on an upward course. We're productive, competitive and cost-effective. Our technical expertise and adaptability make us well-suited to new markets, such as those for environmentally sustainable systems. And although we're a small player in comparison to the big multinationals, the market for construction services is expanding, and there's an enormous need for the kind of expertise that Canadian firms can provide.

As exporters, though, we must be careful to understand clearly the markets in which we're working. In many cases, patience and persistence are crucial ingredients of success abroad; the acquisition schedules for overseas projects are often much longer than they are in Canada, and companies that aren't prepared to invest that kind of time and energy should probably stay with the North American market. There is also usually a large dollar investment involved in becoming an exporter of construction services, and this must be taken into account when deciding on the viability of working abroad.

Even so, a company that doesn't want to be constrained by the domestic Canadian market may find that exporting is a very natural way to evolve and grow. With careful planning, the right partners and a high-quality service, a Canadian construction firm is likely to find a warm welcome in Brazil, Chile, Korea, Turkey, India, the Philippines and just about anywhere else around the world. ■

Our experts

For this article, we consulted four experts who are deeply involved in the Canadian construction services sector. They are:

Michael Atkinson
President
Canadian Construction Association
www.cca-acc.com

David Stewart
Director, International Projects
EllisDon Corporation
www.ellisdon.com

Gerry Russ
Senior Vice-President, Construction Services Division
Aon Reed Stenhouse Inc.
www.aon.com

Jean-Louis Renaud
Senior Economist
Export Development Canada
www.edc.ca

Purifics: Pure Genius

Photo: © Getty Images/Benelux

Brownfields cleanup is becoming big business around the world and as specialists in groundwater purification, London, Ontario's Purifics ES Inc. is ideally positioned to capture a share of this growing environmental sector.

Brownfields are the legacy of a century of industrialization – abandoned, idle or underutilized properties where environmental contamination interferes with redevelopment.

Purifics President Brian Butters says that the contamination at a brownfield site normally starts at or near the surface of the soil. "Over the years, chemicals seep down into the water table," he says, "ending up in lakes, rivers and the ocean." Purifics' expertise lies in purifying contaminated groundwater to the point where it meets or exceeds drinking water standards.

Although the company has only eight employees, Purifics works on large, complex cleanup projects in the United States, Middle East, Latin America and Pacific Rim. Butters, a mechanical engineer, said that the company's intellectual capital is the key to its success. "We are a knowledge-based business. We don't cut and weld. We procure, design, assemble, ship and test. We know how to take the customer's problem and make it less serious. We reduce risk, anxiety and cost. That's our competitive advantage."

The first contract Purifics landed after the company incorporated in 1994 was in Texas, working on the cleanup of a former crude oil refinery site. The company has built on that success and today the bulk of Purifics' business is done in the United States.

Companies in Ontario's thriving environmental sector have excellent export potential, says Trevor McPherson, an international marketing consultant with Ontario Exports Inc., the export development agency of the Government of Ontario. "Studies have shown that there are between 500,000 and one million brownfields in the United States alone. The cost of restoring these sites could be as high as $650 billion."

To take advantage of those opportunities, McPherson arranged for Purifics and six other Ontario environmental companies to exhibit at the annual Brownfields Conference organized by the U.S. Environmental Protection Agency and the International City County Management Association, which attracted more than 4,000 people last year.

Ontario Exports Inc. (www.ontarioexportsinc.com) offers a full spectrum of programs and services to new and experienced exporters including participation in trade missions and in internationally recognized trade shows, one-on-one consulting, market information and export skills training.

8th Annual Ontario Global Traders Awards celebrate export excellence

November 4, 2005 is the deadline for submitting nominations for the 8th Annual Ontario Global Traders Awards, hosted by Ontario Exports Inc.

The awards recognize the outstanding export achievements of the province's small- and medium-sized enterprises. There are four regions – southwest, central, eastern and northern – and six award categories: Leadership; Innovation; Market Expansion (two awards – product and service); Partnership; and Student Achievement. Winners of the regional awards compete for a provincial award.

Companies or individuals may nominate themselves or be nominated by a trade association, customer or anyone familiar with their achievements. For the regional awards, nominations are evaluated by regional judging panels representing leaders from business, education and economic development groups. All of the forms required to submit a nomination can be accessed, completed and submitted online at: **www.ontarioglobaltraders.com**.

New Zealand: Going the Distance

New Zealand isn't a top-of-mind market for most Canadian companies for the simple reason that there's more than 11,000 kilometres of Pacific Ocean separating Vancouver from Auckland. But Canadian trade officials agree that companies targeting the Pacific Rim should take a close look at establishing a beachhead in this booming island country.

"When Canadian companies are looking to seize upon opportunities in Asia, they shouldn't overlook the advantages of partnering with like-minded companies in New Zealand and Australia"

– **Robert Simmons**
Regional Manager, Southeast Asia, EDC

New Zealand offers Canadian exporters not only a fast-growing domestic market of four million people but an ideal launching pad for moving into the larger Australian and Asian economies.

"Except for the distance, New Zealand is a relatively easy and cost-effective place for Canadians to do business," says Robert Simmons, EDC's Regional Manager for Southeast Asia. "When Canadian companies are looking to seize upon opportunities in Asia, they shouldn't overlook the advantages of partnering with like-minded companies in New Zealand and Australia who are already well established in the region."

The land of the kiwi also makes a good starting point for companies that want to tap export and investment opportunities in the island nations scattered across the southern Pacific Ocean.

Political and economic conditions can be far more challenging in these developing island economies. But there are, nevertheless, many promising niche opportunities for Canadian exporters and investors, often in cooperation with international development agencies and financial institutions such as the Asian Development Bank.

In New Zealand, sweeping open-market reforms in the 1980s and 1990s have produced an open, business-friendly and increasingly innovative economy. In fact, the World Bank ranked the country number one in the world for "ease of doing business" last year in a survey of 145 countries based on regulatory constraints, flexibility of labour laws and other factors.

It wasn't always the case. New Zealand once had one of the most protected and regulated economies in the developed world. But after Britain's entry into the European Economic Community in the early 1970s, New Zealand gradually lost its preferential access to a market that once represented 90 per cent of its trade.

It was sink or swim for the tiny country spread out over two islands that together have a land mass only a little more than twice the size of Newfoundland. By the early 1980s, it could no longer sustain the public debt it had run up trying to maintain its first-world standard of living.

The country devalued and then floated its currency, knocked down trade barriers and subsidies and radically reduced the size of its public sector through downsizing, privatization and the creation of Crown corporations.

"We took an initial hit with a drop in our standard of living, but those reforms are now paying dividends," says Graham Kelly, New Zealand's High Commissioner to Canada.

The country has since enjoyed a decade of robust economic performance including a particularly strong run over the last three years when real growth averaged 4.3 per cent.

Yet, Canada's exports to New Zealand remain relatively modest, even though they have jumped almost 140 per cent over the last five years. Last year, Canadian companies rang up $457 million in exports to the country, compared with $193 million in 2000. But a big portion of that growth is attributable to one contract that saw General Motors of Canada Ltd. deliver 105 light armoured vehicles to New Zealand's Ministry of Defence.

Clearly, there's lots of room to improve trade with New Zealand and the opportunities are there, Canadian officials say. The removal of trade restrictions has encouraged the rise of a globally competitive industrial sector in the country, with increasingly sophisticated technological capabilities. One well-known example is the burgeoning filmmaking industry with its cutting-edge special-effects capacity, showcased in the Academy Award-winning *The Lord of the Rings* trilogy.

Canadian companies are winning business in traditional segments such as construction products, food processing and forestry machinery, says Mark Scullion, Canada's Senior Trade Commissioner in New Zealand. But, increasingly, new-economy sectors such as information technology and biotechnology are producing excellent opportunities as well.

"Relative to its size, this is one of the most innovative economies in the world," says Scullion, who operates out of Canada's consulate in Auckland, the country's main commercial centre. "We're seeing excellent opportunities for Canadian companies in higher value-added or advanced technology sectors."

New Zealanders lead the world in cellular-phone and Internet use, and Kelly notes his country's adaptability to new technologies also makes it attractive as a test market for new products.

The key challenge for Canadian companies doing business in New Zealand and the Pacific Islands is the distance, both for travelling executives and for freight. Besides the expense, companies have to contend with a 16- to 18-hour time difference between Toronto

and Auckland depending on the time of the year. When the work day is ending in Canada, tomorrow's day is beginning in New Zealand.

Canadian trade officials say distance is a factor that has to be weighed against the attractions of the market and viewed in comparison to other far-flung trade destinations in Asia. Understandably, New Zealanders are quick to downplay what Kelly jokingly refers to as "distance terror." He says it isn't as big a deal as it first appears to newcomers. And freight rates are relatively cheap thanks to healthy competition into the country.

"It's largely in the mind rather than in the distance," Kelly said. "The hardest thing is to make the first move; once they're underway people keep coming back."

At first glance, the size of the country's market may not quicken the pulse of Canadian exporters who have their eye on China or other Asian countries. But small can be beautiful, particularly for smaller companies making their first foray into the Pacific region.

New Zealand offers low taxes, a friendly no-nonsense business culture and a familiar political and legal system. For a Canadian company, that can add up to fast results and a firm footing for a thrust into Australia, with a population of 20 million, the Pacific Islands and Asia with its more unfamiliar and challenging business conditions.

Small is also beautiful because it can mean less competition than in Asia and attractive opportunities for small, agile companies.

The South Pacific Tourism Organization is forecasting eight per cent growth in tourist arrivals this year, following a strong 2004 that saw a record number of visits to such countries as the Cook Islands, Fiji, Samoa and Vanuatu.

Photo: © Wolfgang Kaehler/CORBIS

One of the brightest sectors is the region's tourism industry.

Pacific Islands: Opportunities Among the Risks

The Pacific Islands is another off-the-beaten-path region where Canadian companies who are ready to do their homework can find excellent opportunities in niche sectors.

The more than 20 island nations and territories that fan out across a vast expanse of the Pacific Ocean to the east and north of New Zealand and Australia are stunningly diverse in their languages, cultures and economies.

With the exception of large Papua New Guinea off the northern tip of Australia, these are among the smallest and most remote states in the world. Collectively home to more than seven million people, each island has been marked by its own unique combination of indigenous history and colonial experience.

Politically they range from the kingdom of Tonga, to constitutional republics, to the quasi-colonial states of French Polynesia and Guam, respectively territories of France and the United States. While most of these countries gained independence in the 1960s and 1970s, almost all still maintain close trade and aid ties with wealthier countries – Australia, New Zealand, United Kingdom and France.

The islands, as a general statement, have developing economies that often depend on tariff income, foreign aid and remittances from migrants who have left to make their fortunes elsewhere.

The countries suffer from their geographic isolation, lack of natural resources, small populations and the occasional ravages of violent tropical storms and cyclones. Most people living on the Pacific Islands still depend on subsistence farming and fishing for their livelihood.

"There are huge problems in terms of sustainable livelihoods – food production, fresh water, urbanization and employment," says Larry Bennett, a Project Manager in the Asia Branch of the Canadian International Development

Agency. As well, in some island countries, there is a history of political unrest, corruption and ethnic violence.

Despite the challenges, there are numerous bright spots for Canadian suppliers and investors in the islands.

One of the brightest, of course, is the region's growing tourism industry. The South Pacific Tourism Organization is forecasting eight per cent growth in tourist arrivals this year, following a strong 2004 that saw a record number of visits to such countries as the Cook Islands, Fiji, Samoa and Vanuatu.

"There will be opportunities in the tourism sector because accommodation capacity will have to increase particularly as China and India emerge as significant tourism source markets for the Pacific Islands," says Simmons.

Still, sun, sand and palm trees aren't the only natural resources in this region. The larger countries of Papua New Guinea and Fiji do generate substantial export revenue from such commodities as minerals, timber, seafood and agricultural produce. Some countries such as Fiji also have manufacturing activity.

Canada's trade with the Pacific Islands is small, totalling less than $40 million in exports last year. Trade officials say there are good opportunities for exports and investments by enterprising companies, especially in the areas of infrastructure, telecommunications, aerospace, resource exploitation and fisheries.

A key source of opportunities is development projects sponsored by aid agencies and/or international financial institutions such as the World Bank or the Asian Development Bank.

What follows are sketches of three of the better known island countries.

Photo: © The Flight Collection/Alamy

Fiji's two international airports are currently facing capacity bottlenecks. Plans are underway to address these through a major long-term airport upgrading program.

Papua New Guinea

Papua New Guinea is by far the largest country by area and population among the Pacific Islands and is one of the most extraordinary places in the world for its rugged geography and cultural diversity. It is also one of the most troubled. An estimated 650 different languages have been identified on New Guinea Island – composed of Papua New Guinea and the Indonesian province of West Papua. This underlines the reality behind the folk saying: "For each village, a different culture."

Among the Pacific Islands, Papua New Guinea offers some of the best opportunities for Canadian companies because of its rich endowment of natural resources. Deposits of oil, gas, gold and copper are exploited primarily by foreign companies and account for 70 per cent of export earnings. The other 30 per cent comes from agricultural production including coffee, cocoa and coconut as well as timber and seafood.

The country, a former Australian colony, has suffered through difficult economic times, although strong worldwide commodity prices have helped during the last two years. Papua New Guinea offers opportunities for Canadian companies in resource exploration and extraction. There are also opportunities to be had in fulfilling its many infrastructure needs.

Still, companies must be mindful that this is an extremely difficult market that is rife with poverty, crime, corruption and sporadic ethnic violence in the highlands region, northeast of the capital, Port Moresby. An estimated 40 per cent of the population lives on less than $1 per day, up from 25 per cent in 1996, according to the Asian Development Bank.

Fiji

To the southeast are the Fiji islands, one of the most developed economies of the region where the tourism industry – which attracted 450,000 visitors last year – is the country's most important economic driver. Fiji is composed of 322 islands, of which about 100 are inhabited.

Besides tourism, the country has important sugar and garment industries that are its top export earners. Together these two industries accounted for about half the country's export earnings last year. However, both industries are suffering through tough times.

The sugar industry is inefficient and threatened by the phasing out of a

Photo: © Getty/Paul Chesley

Papeete Harbour in Tahiti is a major South Pacific port.

preferential pricing agreement with the European Union; the garment industry has been hit by competition from China and adverse trade decisions in Australia and the United States.

Fiji also exports gold, silver, coconut products and mahogany, and has a bustling fishing industry.

Although the political situation has improved recently, the country has been marked by tension between the indigenous Fijian majority and Indo-Fijians. Tensions between the two communities were behind military coups in 1987 and 2000 that took a heavy toll on the economy.

Canadian companies may find good investment opportunities in Fiji's rapidly growing tourism industry. The country also needs to improve its infrastructure to accelerate economic growth.

The government is planning to rely on public-private partnerships to improve water systems, sewers, power and transportation networks such as roads, airports and ports, the Asian Development Bank stated in a recent country report. For example, the two international airports at Nadi and Nausori, along with several domestic airports are currently facing capacity bottlenecks, and the government-owned Airports Fiji Ltd. is planning to address these through a major long-term airports upgrading program.

French Polynesia

French Polynesia is among the wealthiest and certainly best known of the Pacific Islands, thanks in large part to the enduring allure of Tahiti as a mythical tropical paradise. Refuge for the Bounty mutineers in 1789, Tahiti is also the land that enchanted French painter Paul Gauguin.

But Tahiti is just one of a collection of 120 coral atolls and volcanic islands scattered in five archipelagos that make up French Polynesia. The islands are dots on a five-million square-kilometre expanse of the South Pacific, an area equal to the size of Europe. In 2004, Canadian companies sold $15.3 million in goods and services to this French overseas territory, making it the best market in the islands for Canadians.

French Polynesia depends on France for much of its income. The primary source of employment is the public service, the military and the island's large tourism industry, which accounts for about one-quarter of the economy.

The country also earns export revenue from its black pearl farming and commercial fishery – the country has by far the largest marine exclusive economic zone in the Pacific. There is also a small manufacturing sector, mostly involved in agrifood processing.

"French Polynesia is a smaller country, but more highly developed than Fiji, and it is a market where Canadian companies have seen some success," says Simmons. "Opportunities here are in the aerospace sector as well as marine, environment and tourism sectors."

The Pacific Islands: Managing the Risks

The Pacific Island nations offer many promising opportunities for Canadian exporters and investors. But Canadians have to keep in mind that some of these countries have been vexed by political instability, violence and corruption.

Trade experts agree, companies have to carefully research Pacific Island markets and manage their risk through such steps as partnering with companies established in the region or participating in projects sponsored by international financial institutions.

Papua New Guinea, for example, is a country with a wealth of natural resources that has attracted the interest of many foreign companies. But it has also been beset by a host of problems: political infighting, tribal violence and general lawlessness. There was also a decade-long civil war fought on the island of Bougainville that claimed an estimated 15,000 lives before it ended in 1998.

"Papua New Guinea is a country that has never really grown out of tribalism," says Barbara Grinfeld, a


Photo: © REUTERS/David Gray

Australia troops arrive in the Soloman Islands after ethnic fighting and lawlessness had claimed hundreds of lives.

Political Risk Analyst with EDC. "That's the reality on the ground."

Australia has been forced to intervene in both Papua New Guinea and the nearby Solomon Islands in a bid to bring about stability. In the Solomon Islands, Australia led an international force that intervened in 2003 to restore order in a country torn apart by ethnic violence, government corruption and rampant crime.

Other challenges for foreign companies operating in the Pacific Islands include fragile economies, strict land ownership rules and, at times, ambivalent attitudes toward development and the role of foreigners in the economy.

"It goes without saying that caution is the watchword for Canadian companies looking to do business in the islands," says Grinfeld.

One of the best ways for exporters and investors to protect themselves from political and economic risk is to partner with companies that have extensive experience in these markets, Canadian trade officials say. That may mean local companies with good reputations or companies from New Zealand and Australia.

"Papua New Guinea is an example of a market where Australia and New Zealand are very well positioned to partner with Canadian companies," said Simmons. "It's a very difficult market to do business in otherwise."

Simmons notes that EDC offers a range of insurance and financing products to help Canadian exporters and investors manage risk in developing markets such as the Pacific Islands. "We are interested in helping companies move into these new, lesser known markets while at the same time helping them to manage their risks."

The Key to Finding Business

The distance may be daunting, but for companies that want to develop business in New Zealand and the Pacific Islands, there's no substitute for face-to-face contact.

New Zealand has a welcoming business community and good things can happen fast once the ice is broken, according to Scullion. However, the diversity of the islands – as well as their sometimes complex political and economic problems – can make it difficult to find good opportunities with the right level of risk.

"It's all about getting to know people and businesses," Scullion said. "Unlike some markets, you don't have to spend three, four or five years fostering a relationship with a company. You can develop relationships quickly and personal relationships can take you far.

As is the case around the world, the office of the Canadian Trade Commission located in Auckland is a good place to start for companies prospecting for business in New Zealand and the islands. Another source of information for companies looking for investment opportunities is the Pacific Islands Trade and Investment Commission, an agency established to encourage trade and investment in the islands. New Zealand and Australian companies operating in the islands can also be a rich source of market intelligence, assistance and partnership possibilities in this region.

Canadian exporters exploring opportunities in New Zealand will find an economy with virtually no trade barriers. The Pacific Islands, however, are another story. Here both tariff and non-tariff barriers are common and constitute an important source of revenue for hard-pressed governments.

There are ongoing efforts to knock down trade restrictions among the 14-member Pacific Island Forum countries. An agreement known as PICTA has been signed by member governments with the aim of lowering tariffs over a 10-year period on goods traded among the islands. It also aims to eventually eliminate non-tariff barriers such as quotas, import and export licenses.

Another agreement, known as PACER, sets out a framework for future free-trade agreements between the islands, and Australia and New Zealand – their largest export markets and source of imports. PACER is expected to lead to a broad lowering of trade restrictions compatible with World Trade Organization standards.

Besides contacting the Trade Commissioner's Office in New Zealand or Australia, the best way for Canadian companies to find out about opportunities in the islands is to focus on multilateral development agencies and financial institutions.

The web sites of both the Asian Development Bank (**www.adb.org**) and the World Bank (**www.worldbank.org**) provide information on projects and procurement guidelines for private companies. ■

New Zealand's Tourism Industry: Ready for Takeoff

Photo: Courtesy of Bombardier Inc.

BY TERRI-SUE BUCHANAN

New Zealand has certainly made the most of its recent time in the global limelight. In this rugged home of fjords, glaciers, rain forests, geysers and unspoiled beaches, it's obvious why tourism is the largest growth industry.

But the country is more than just the unbelievable natural landscapes showcased in *The Lord of the Rings* – its lure can also be attributed to it being a relatively inexpensive English-speaking country, which is easy to travel through and extremely safe and friendly.

Given these attractions, Air New Zealand (ANZ) is trying to capitalize on the recent growth in tourism and the strong economy that New Zealand has been enjoying. But to grow their business they needed more, and slightly larger, aircraft to replace an aging fleet of 30-seat turboprops. They chose a fleet of 17 Bombardier Q300 50-seat turboprop aircraft. The aircraft will be operated by ANZ's regional airline, Air Nelson, which operates domestic services as Air New Zealand Link.

Given New Zealand's burgeoning tourist market, the increasing demand for domestic flights and the country's relatively small size and population, turboprops are the most economical vehicle for ANZ, says James Beamish, Director of Structured Finance for Bombardier Inc. Bombardier turboprops are twin-engine propeller aircraft marketed as the QSeries, and configured in 37-, 50- or 74-seats, optimal for distances of about 500 kilometres and under.

According to the Tourism Research Council of New Zealand, growth is forecasted at 5.8 per cent a year, which means that by 2010 the number of international visitors will reach 3.1 million. Combined with $11.9 billion of domestic tourism activity, total tourism expenditure is expected to reach $23 billion in 2010. In fact, hobbits, wizards and orcs are helping to draw so many tourists to New Zealand that travellers may soon surpass dairy farmers as New Zealand's top export earners.

Ultimately, the contract was awarded to Bombardier because they were offering a quality product at the right price, as well as a complete support package. "And we were able to win the contract while Air New Zealand was already operating a fleet of our competitors' aircraft," adds Beamish

Throughout the sales cycle, Bombardier learned a lot about dealing with Kiwis. "This is a Commonwealth nation so it's not very different from dealing with Canadians," says Beamish. "We have a similar mindset and we've both grown up next to major economic powers with about 10 times our populations. So there is a natural affinity."

They also share the Canadian work ethic, Beamish adds. "They work hard, but they play just as hard. Canadian exporters should leverage this affinity."

Bombardier's Q300 has a high level of Canadian content at 67 per cent, notes Beamish, so this deal is not only a win for major Canadian companies such as Bombardier and Pratt & Whitney, who supplies the engines. But it also benefits many smaller Canadian sub-suppliers from Calgary to Moncton, such as Messier-Dowty from Ajax, Ontario, that supplies the landing gear, as well as more than 20 other smaller Canadian companies throughout Ontario and Quebec that supply various hardware elements, electrical panels, insulation blankets and panel assembly.

Vivianne Bouchard, EDC's Financial Services Manager for Aerospace, agrees. "EDC is always pleased to support a deal that provides benefits for so many Canadian companies." EDC and ANZ had worked together before and it had been a very positive experience for both sides. On this transaction, EDC's offer to ANZ guaranteed the availability of financing at the time of delivery of the aircraft. Having certainty as to the availability of financing was a key issue for ANZ. They saw EDC's support as an important advantage to Bombardier's bid. ■

EDC at Large

This new feature provides a wrap-up of recent announcements by EDC and the Government of Canada about initiatives that have an ongoing benefit for exporters.

Bank guarantee program updated for exports to developing markets

Enhancements to EDC's guarantee program will serve to complement its direct lending program by leveraging the financing capacities of EDC and Canadian and international banks to increase the medium- and long-term financing available to support Canadian export transactions in developing markets. **www.edc.ca/mediaroom**

Line of credit extended to facilitate Canadian exports to Kazakhstan

EDC and Bank TuranAlem (BTA) of Kazakhstan signed an agreement for a US$25 million line of credit to finance exports of Canadian goods and services to Kazakhstan. Recent growth in equipment exports to Kazakhstan, particularly in the agricultural sector, indicates that this new line of credit will help increase these types of exports. **www.edc.ca/mediaroom**

Peter Nesbitt named as EDC's first permanent representative to India

Nesbitt's presence in India will enhance service to EDC's customers in terms of gathering market intelligence, generating leads, engaging in matchmaking, and managing transactions. It will also help raise awareness of EDC's suite of trade finance and risk management services. **pnesbitt@edc.ca**

World Bank guidelines for sustainable development available in Chinese

The World Bank's Pollution Prevention and Abatement Handbook has been translated into Chinese to support China's efforts to manage its development in a sustainable manner. The Chinese version of the handbook is an important tool for industry to meet the requirements of China's new Cleaner Production Promotion Law that went into effect in 2003. EDC, CIDA and China's National Development and Reform Commission (NDRC) collaborated on the translation. **www.edc.ca/mediaroom**

Agreement with Mabe promotes new Canadian exports to Mexico

EDC concluded a financial agreement with manufacturing giant Mabe that will facilitate US$22.5 million in new Canadian export sales to Mexico. This facility will allow Mabe to procure even more Canadian goods, equipment and raw materials for the fabrication of its products. **www.edc.ca/mediaroom**

Canadian productivity ready for upswing

In its semi-annual Global Export Forecast, EDC said that conditions are ripe in 2005-2006 for significant improvements in Canadian productivity. EDC sees Canada's slow productivity growth – the one blemish on an otherwise spotless economic record – likely to improve as a result of strong global and domestic economies, and the availability of money and a strong dollar favouring investment in capacity both at home and abroad. (See "Productivity Upturn Ahead" by Stephen S. Poloz in this issue of *ExportWise.*)

Canada's International Market Access Priorities 2005 (CIMAP)

Minister of International Trade Jim Peterson underlined thepre-eminence of the Canada-United States trading relationship, and noted Canada is working with emerging markets such as Brazil, China and India to advance Canadian competitiveness through expansion of Canadian exports and access to competitively priced inputs. CIMAP also reiterates Canada's efforts to improve market access for Canadian exporters through negotiations in the World Trade Organization. **www.dfait-maeci.gc.ca**

Virtual Trade Commissioner web site for Canadian exporters

EDC and the Canadian Trade Commissioner Service have expanded the tool kit of the online Virtual Trade Commissioner for Canadian exporters. This web site provides customized market information, business leads and a quick entry to EDC's trade finance and risk management tools. Exporters can register (at no cost) at **www.infoexport.gc.ca**.

Canadian Investment Fund for Africa (CIFA)

Minister of Finance Ralph Goodale announced that CIFA aims to stimulate intra-African and foreign investment to contribute to sustainable development by channeling at least $100 million in private investment into Africa, matched by an additional $100 million in public funds. **www.fin.gc.ca** ■

Rebuilding Attitudes in China

A showcase for Canadian wood construction in Shanghai's sprawling Pudong district may just show other Canadian exporting industries the way to greater success in the competitive Chinese market.

Dream Home Canada Demonstration Centre in Shanghai, China.

Photo: Forestry Innovation Investment Ltd.

Dream Home Canada is a gleaming demonstration centre in Shanghai where Chinese consumers, home builders and government officials can see, feel and smell the difference wood makes in a residential building.

The centre is just one of a coordinated series of initiatives by lumber trade associations, forestry companies and governments to promote the use of Canadian wood in the gigantic Chinese housing market.

Completed in January by the British Columbia forestry industry and the provincial government, the 900-square-metre Dream Home Canada centre makes a big impression on Chinese builders who often have virtually no experience with wood.

"They're blown away. There's nothing like experiencing it first hand," says Mike Hogan, the B.C. government official in charge of the Shanghai centre. But Hogan is quick to admit that wood construction is not an easy sell in China, where concrete is king. There wasn't even a wood-frame housing code until a year ago.

This unfamiliarity is the result of a prejudice in China against wood housing, which is thought to be flimsy and prone to fire, termites and rot. Hogan says many Chinese people automatically think of the children's tale of the three little pigs, in which the big, bad wolf blows down a house made of wood.

"The only way to dispel the misperception that these are stick houses is to have a fourth little pig," Hogan remarks. "The fourth little pig builds his house using Canadian wood-frame technology."

Canadian promoters of wood construction and finishing in China say wood has numerous advantages over concrete, and that's helping them to change attitudes. Among other things, wood construction is less costly and provides better energy efficiency than concrete, a key consideration in a country desperately short of power.

There are few wood-frame houses in China but those that are built typically employ Canadian wood. With 10 million housing starts a year, the market opportunity is mind-boggling.

"The fourth little pig builds his house using Canadian wood-frame technology."


Photo: Forestry Innovation Investment Ltd.

Interior of the Dream Home Canada Demonstration Centre in Shanghai, China.

China has moved up rapidly and ranks fourth among importers of Canadian wood. But Canada's $80 million in exports to China are still a small fraction of our country's $20 billion in wood exports.

The presentation centre not only shows off Canadian wood and building techniques, it also houses the offices of other provincial industry associations. The associations, supported by the federal and provincial governments, are coordinating their marketing efforts in China under an umbrella agency called the Canada Wood Group.

For example, the Quebec Wood Export Bureau (QWEB) based in Quebec City, is spearheading its own demonstration project in Shanghai – a hybrid residential building that combines concrete walls with wood for the top floor and a pitched roof. The hybrid building, constructed in cooperation with the Shanghai Research Institute of Building Science and the Quebec government's Societé d'habitation du Québec, is designed to show builders and developers the advantages of using wood to address such problems as roof leakage and a lack of energy efficiency.

"All of our efforts are complementing one another," says Sven Gustavsson, Manager of QWEB's Softwood Division. "We're all working toward the same goal which is to help Canadian companies take advantage of the tremendous opportunities in this market."

The hybrid building is to be officially inaugurated at the end of September as part of an important trade mission from the Quebec wood industry to China.

"A key to this market is to sell the Chinese what they want, not what we would like to sell them," Gustavsson warns. "And this project has a lot of support from the Chinese themselves who see the same potential that we do."

Hogan said he's been focusing on "soft marketing" initiatives at the Dream Home Canada centre to subtly promote wood homes to Chinese consumers. For example, the centre has been used as the main setting for a 20-part dramatic series to be aired on Chinese national television. It has also been used as the venue for a press conference to launch an international fashion model contest.

"We want to continually associate ourselves with what the Chinese consider to be a high-quality lifestyle," Hogan adds.

B.C. is also working with a major Shanghai developer, JinQiao Real Estate Development Company, to build two single-family demonstration houses with wood frames. On its own, JinQiao, with technical assistance from Canadians, has built another 102 wood-frame homes and is constructing 205 more.

The Canadian industry is also promoting the use of wood by sponsoring a series of training initiatives. These are aimed at familiarizing builders, developers and government officials with wood–frame construction as well as teaching skills to architects, engineers and trades people. The Canadians are also working with the Shanghai government to introduce a wood building code for apartment blocks.

Winston Kan, EDC's Regional Manager for greater China, applauds the efforts of the lumber industry. But he cautions it's no small task to change Chinese attitudes toward wood housing.

"Thanks to the promotional and outreach efforts of Canadian industry associations, the Chinese are quickly learning about the advantages of Canadian wood-frame technology," Kan says. "Yet China remains a complex, highly regional and dynamic marketplace, so having perseverance is key."

Hogan believes that attitudes can change quickly in China when a trend catches on. The wood industry's commitment to China and its coordinated effort is already bearing fruit in rising wood exports to the country, he says. And it could serve as a model for other Canadian industries looking to break into the Chinese market.

"The switch can be flicked. Things can turn very quickly here once you've done all your homework," Hogan adds. "But you have to be on the ground seven days a week, 52 weeks a year." ■

Where Are They Now?

ProSlide: Making Waves

BY CRESSIDA BARNABE

Ten years ago, *ExportWise* interviewed a growing company in Ottawa called ProSlide Technology Inc. Today, the company is a world leader in the custom design, engineering and manufacturing of fiberglass water rides for water parks and theme parks. Jeff Janovich, Vice-President of Sales, tells us about the company's growth since its early days with Mont Cascades in Cantley, Quebec, the state of the industry, and the wild side of testing rides.

How has the business changed since *ExportWise* profiled ProSlide in 1995?
ProSlide has grown at least 100 per cent since then because of a strong focus on customer service and our relentless concentration on new ride development. Our clients are always looking for exciting new products that can help them grow their business and many of our products have become the 'must have' rides in many water parks around the world.

Where have you seen the greatest growth?
The United States has always been our primary market and we don't see that changing in the foreseeable future. However, we are always looking for new opportunities and have completed a number of major projects in Brazil, China, Germany, Indonesia, Mexico and Spain. We also continue to add new rides to established parks throughout South America and Europe and are excited with growing opportunities in the Middle East and Asia.

Are you targeting these markets?
ProSlide has always had a strong presence at the World Waterpark Association (WWA) and the International Association of Amusement Parks and Attractions (IAAPA) trade shows, which are the best venues to showcase our products to key industry buyers and park operators from around the world.

Because of a number of important projects we've completed in Asia and the interest we've seen from that region, we have also attended the IAAPA Asia Show over the past few years. We also advertise in various trade magazines and our web site generates inquiries from around the world.

What has been the greatest challenge the company has faced in trying to win new export business?

The challenge has come from smaller North American and foreign suppliers who compete by offering lower quality and lower cost products. These suppliers do not have the design experience or the wide selection of products that we do, but will try to get buyers' attention by competing on cost. Another challenge is competing against low-cost local suppliers in countries that impose unusually high import tariffs.

Do you have any Canadian competitors?

As a matter of fact, our main competitor is another Canadian company located in Vancouver, B.C. People are always amazed that two Canadian companies are the two leading water ride suppliers in the world. The waterpark market will continue to grow as new products are created and new markets emerge, and Canada will remain the leader in this unique industry.

How have EDC's bonding products helped ProSlide?

As publicly-owned facilities expand more into large water parks and aquatic facilities, the ability to provide bonding is critical for ProSlide. This is where EDC has really helped us. For example, EDC recently provided bonding support for a large project to add a new slide to a municipal waterpark in Indiana. EDC's support was pivotal in ProSlide being awarded the project, as the publicly-owned facility required bonding from all of the major contractors on the project.

How has the industry changed since the company was founded?

The industry has matured in the 19 years since ProSlide was founded. The growth in indoor resort water parks, coupled with the need for existing water parks to continue to add the latest ride innovations in order to keep guests coming back, has continued to fuel growth. We have also seen a lot of consolidation in the market with groups such as Six Flags Theme Parks, Palace Entertainment and Cedar Fair taking over former independent or 'mom and pop' firms. These larger corporate park owners have more capital for larger ride additions for multiple parks. There is also more market potential in the Middle East and Asia.

As we touched on, the emergence of indoor resort water parks has also been a growth area in the last six to eight years. New resorts being built today feature many of the same attractions as a regular outdoor park, but are totally enclosed in 3,250 to 9,300 square metre indoor parks that can keep guests entertained all year round.

What's been the smartest business move the company has made?

Our constant focus on new product development. Experienced park owners recognize that ProSlide is consistently first out of the gate with a new product and they want to work with the leading industry innovator. One of our newest ride innovations, *The Tornado*, has become an instant industry hit! *The Tornado* looks like a large funnel angled slightly sideways. Groups of four riders, sitting aboard a unique cloverleaf-shaped inner tube, accelerate down a steep, dark, 2.7 metre diameter tunnel from a height of more than 15 metres, and enter the wide end of the 18 metre diameter Tornado funnel and travel up and around the reducing radius vertical wall. Reaching above the equator line in a vertical position, the riders sweep through a moment of weightlessness before angling back down and across the enclosed funnel, experiencing a similar weightless sensation as they speed toward the narrow portion of the funnel. Riders eventually reduce velocity and exit into the landing pool below. In the two-and-one-half years since we introduced the ride, we have completed 22 successful installations and won "The Impact Award" from the IAAPA as best overall new product in the entire industry. We are proud of these achievements and are trying to maintain this level of success with our next new ride innovation.

How much fun is it to test the rides?

I am one of the first people to test many of our new rides before they open to the public. I joke all the time that I make my living as a slide tester. It's the fun part of the job, but each time we test a ride, we evaluate the installation, the ride performance and the waterflows, to insure the ride is ready. We report our results back to the ride designers as part of the constant evolution and improvement of our ride designs. We are passionate about ride performance and want each one of our rides to be the best it can be. Testing our rides and those of our competitors also gives us the experience we need to describe the rides to future clients.

Can you see where ProSlide will be in 10 years?

We see ourselves maintaining our leadership position within the industry and continuing to create new innovative water ride products. The existing water parks will always want to keep adding attractions to keep growing their businesses and we want to be the first company they go to for the latest innovations.

Last year, we followed up *The Tornado* by introducing *The Behemoth Bowl*, a four-person tubing bowl. We were blown away when it also won "The Impact Award." This year, we are set to open our next new ride innovation, *The Rocket Uphill Water Coaster.* ■

COMPANY PROFILE

Company: ProSlide Technology Inc.
Business: Custom design, engineering and manufacturing of fiberglass water rides for outdoor and indoor water parks
Location: Ottawa, Ontario
Employees: 25 (+ 15-20 installers)
Exports: 95 %
Export Markets: Asia, Europe, United States
Contact: www.proslide.com

Do Good ... and Do Well?

Can what's good for the planet be good for business?

Illustration: Shannon King/Insight Communications

BY **SALLY ENRIGHT**

Since the 1990s, expectations have been growing for companies to integrate socially and environmentally responsible practices with their strategic planning and day-to-day operations. However, many struggle with the practicality of incorporating these principles without compromising their bottom line.

According to Bob Willard, author of *The Sustainability Advantage* and a leading expert on the business value of corporate sustainability strategies, this is the Holy Grail of many concerned corporate leaders: How can a company do well while doing good?

The progress Canadian companies are making toward greener operations varies widely. "While some companies think they are doing great things simply by obeying regulations, others are going well beyond that," says Willard. He blames the "terminology swamp" and describes it as a speed bump on the road to corporate sustainability.

"Everyone agrees that the three pillars of sustainability are responsible economic, environmental and social practices that contribute to the public good," says Willard. "However, it needs to be more focused so that business executives can see the relevance of sustainability to their companies."

In 1997 while working at IBM, Willard wrote a letter to Chief Executive Officer (CEO) Lou Gerstner asking him to embed sustainable development principles into IBM's business strategies. "My letter wound up in the philanthropic pile because I didn't do a good enough job of presenting the idea as a business strategy," confesses Willard. "If I could do it all over again, I would have started the letter with 'Dear Lou, do you want to make 38 per cent more profit?' rather than asking him to save the world."

"Some companies just don't get it. Others come to sustainability through a crisis such as an environmental accident, a market collapse or an attack by an NGO," explains Brian Kelly, Director

Photo: Courtesy of Alcan Inc.

of the Sustainable Enterprise Academy at the Schulich School of Business at York University. "Our strategy is to bring in large companies who want to be proactive and who will take a leadership role in bringing sustainability principles into their business strategies and also their supply chains."

"There are two reasons why companies embrace sustainability strategies," says Willard. "First, it's because the founder or CEO personally believes it is the right thing to do and ensures the entire corporate culture reflects these values; and second, because it's good for business."

Willard's and Kelly's points are supported by the experience of Alcan, a global leader in aluminum production, engineered products and packaging. "The practice of sustainability has very deep roots in Alcan," explains Hugh Porteous, the company's Vice-President, Government Relations. More than 80 per cent of Alcan employees have said in annual polls that the company's sustainability practices are important to them. "Employees want to feel proud to come to work everyday," says Porteous.

That pride is well-founded since Alcan is ahead of the curve when it comes to embedding sustainability principles into its operations, having reduced greenhouse gas emissions by an average of 13 per cent from 1990 levels. But Alcan also has a deep understanding of sustainability's impact on their business. "Aluminum is very valuable, worth about US$1,750 a ton and it is one of the world's most recyclable materials," says Porteous. "So recycling is very important to the aluminum sector."

Kelly adds that large sustainability-driven companies can put significant pressure on their suppliers. "It can be a negative pressure, where the company tells its suppliers that they must meet a certain standard within three years if they want to continue doing business; or it can be more positive, such as encouraging life-cycle assessments with suppliers and then implementing mutual opportunities to improve the whole product value chain."

For example, Alcan's product is used by car companies seeking aluminum to manufacture more environmentally friendly automobiles. "Alcan has adopted ISO 14001 environmental management standards because they provide us with the information we need to improve our processes on a continual basis. This is expected by our clients and will be key to the future acceptability of our products in world markets," says Porteous.

And some positive pressures can come from your financing partners. For example, when exporters request EDC's trade finance and risk management services to help with an export transaction, EDC is required by law to determine whether the project is likely to have adverse environmental effects despite the implementation of mitigation measures and, if so, whether EDC is justified in entering into the transaction. EDC has a team of environmental experts who conduct these assessments and who often help exporters to understand and comply with the relevant laws and regulations, so that transactions can proceed while respecting environmental requirements.

Barrick Gold Corporation is an EDC customer and one of the world's largest gold mining companies, with operating and development properties in the United States, Canada, Australia, Peru, Chile, Argentina and Tanzania. When developing the framework for the Veladero project in Argentina, Barrick had prepared an Environmental Impact Assessment that satisfied EDC's requirements.

Barrick has a progressive approach to sustainability and considers environmental performance a strategic business objective. "Properly managing environmental and social matters is as fundamental to successful project execution as engineering and other design considerations," explains Kelvin Dushnisky, Vice-President, Regulatory Affairs. "The costs associated with responsible development are integrated into project design and are weighted equally with more conventional expenditures such as equipment, labour, materials and so on."

He feels that there are significant risks involved in not engaging in sustainable practices, ranging from lack of stakeholder commitment or confidence, to having a negative impact on a company's global reputation. "As both our Chairman and CEO consistently articulate, our reputation is our calling card. We want to be welcome in the communities where we presently operate and by new communities as we explore opportunities elsewhere in the world," adds Dushnisky.

As the corporate world awakens to the idea that what's good for the planet can also be good for business, it's companies like Alcan and Barrick that are helping build the business case for sustainability. ■

Editor's Note: *This is the first of a two-part series examining the sustainability advantage. The* Fall 2005 ExportWise *feature will look at the risks involved when companies do not make sustainability an integrated part of their business operations.*

Productivity Upturn Ahead

BY STEPHEN S. POLOZ

By now, everyone knows that Canadian companies are struggling to boost productivity, while American companies produce a "productivity miracle." What lies behind this gap in performance?

Photo: © Martin Lipman

Conditions are ripe for a significant improvement in Canadian productivity in 2005-06. And a good thing, too, because slow productivity growth has been a major blemish on Canada's otherwise spotless economic record in recent years.

To begin with, the global economy is in its best shape in at least eight years. Global growth is still moderating from its too-hot five per cent pace in 2004, but is expected to remain at 4.2 per cent and 4.1 per cent in 2005-06. Canada also has good domestic economic fundamentals. With export volumes projected to grow by three per cent in both 2005 and 2006, domestic growth is forecast at 2.4 per cent and 2.9 per cent, respectively.

Furthermore, the money is available for new investments in equipment and new capacity. Profitability improved substantially during 2004, with profits in the manufacturing sector alone up 40 per cent year-on-year. Borrowing costs are also low and likely to remain so.

Moreover, the Canadian dollar is enjoying considerable global purchasing power at present, which reduces the cost of investments. This applies both to purchases of new machinery, a lot of which is imported, and to investments in foreign countries. Canadian companies are reportedly planning to spend more than $100 billion on new equipment during 2005. They also invested some $60 billion abroad during 2004, and we are forecasting continued high rates in 2005-06.

How does all this lead to higher productivity? Solid economic growth allows companies to use up their excess capacity, which is the first phase of any productivity upturn. The manufacturing sector saw an increase in productivity of 4.6 per cent during 2004 because of this first-round effect, as capacity utilization rose to nearly 90 per cent. Now that the idle capacity has been absorbed, growth in 2005-06 will be based on new additions to capacity, which will incorporate the latest technology and therefore boost productivity even further.

The global economy is in its best shape in at least eight years.

But it is foreign investment by Canadian companies that holds out the most promise for higher productivity. There is substantial evidence that this is how the U.S. manufacturing sector has pulled off its "productivity miracle." More than half of all U.S. imports today represent within-company trade by multinationals, which means that companies are using their foreign suppliers to permit greater specialization and productivity at home.

Setting up global supply chains in this way often requires foreign investment, and a strong domestic currency makes those investments much more attractive. American companies expanded their foreign operations significantly during 1998-2002, when the U.S. dollar was very strong. By contrast, the Canadian dollar was undervalued during those years, causing Canadian companies to postpone such strategies. Now, with the Canadian dollar at full strength, Canadian companies will probably move more of the lower-productivity elements of their operations offshore. Importing more inputs will allow them to offer a lower price to their customers, thereby increasing profits and sales, including exports. But it will also mean higher domestic productivity, because the lower-productivity activities will no longer even enter the Canadian statistics – they will be replaced by overall growth in higher-productivity activities as the companies increase their sales.

The bottom line? The global economic and financial outlook remains quite favourable. Canadian international trade will grow not only because of increased export sales, but because we will develop global supply chains that increase trade in intermediate goods. Leveraging international trade as a tool of supply, while investing in new plant and equipment at home, will lead directly to a significant upturn in Canadian productivity.

Stephen Poloz is EDC's Senior Vice-President and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate
Communications & External Relations
boyle@edc.ca

Editor
renda Brown
rbrown@edc.ca

Associate Editor
Michael Toope
ntoope@edc.ca

Production/Circulation
eborah Chapman
chapman@edc.ca

reative
nsight Communications

ranslation
ean Beaudin, Joanne Durocher, Manon
ahaie, Josée Lamirande, under the
rection of Maguy Robert and
nne Tanguay

ontributors
essida Barnabe, Terri-Sue Buchanan,
eborah Chapman, Jane Daly,
lly Enright, Dennis Jones, Sandi Jones,
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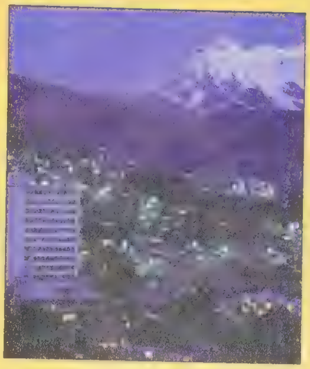

Country Features

Our focus this fall will be the South American countries of Venezuela, Colombia, Peru, Bolivia and Ecuador. In this feature we will compare and show the contrast between these countries. We will also highlight the political and economic conditions in these markets which affect how exporters can conduct business there.

Company Profile

Learn how EDC has increased export opportunities in Chili through a financing arrangement with CMPC – one of the largest forest products companies in Latin America – an example of how EDC is bringing foreign buyers together with Canadian exporters.

CSR Special Feature

In this second installment, we tackle the question, "How can a company do well while doing good?" Find out why adopting sustainable principles in your company makes good business sense.

All this and more in the Fall 2005 issue of *ExportWise*, hitting your desks in September.

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

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Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Head Office
Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
Web site: www.edc.ca

Western
contactwest@edc.ca

Linda Niro
Regional Vice-President

Vancouver Office
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton Office
Tel.: (780) 702-5233
Fax: (780) 702-5235

Calgary Office
Tel.: (403) 537-9800
Fax: (403) 537-9811

Winnipeg Office
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario
contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto Office
Tel.: (416) 640-7600
Fax: (416) 862-1267

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

London Office
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa Office
Tel.: (613) 597-8523
Fax: (613) 598-3811

Quebec
contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal Office
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City Office
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic
contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax Office
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton Office
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's Office
Tel.: (709) 772-8808
Fax: (709) 772-8693

Mexico & Central America

Mexico City
Doug Fortney
Regional Manager
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Regional Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

Central Europe

Warsaw (Poland)
Marzena Koczut
Regional Manager
Email: mkoczut@edc.ca

China

Beijing
Winston Kan
Regional Manager
Tel.: (011) 8610-6532-3536 ext. 3357
Email: wkan@edc.ca

Southeast Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Regional Manager
Tel.: (011) 603-2718-3366
Email: rsimmons@edc.ca

India

New Delhi
Peter Nesbitt
Regional Manager
Tel.: (011) 91-11-5178-2000
Email: pnesbitt@edc.ca

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xporting to the Andes
MPC & EDC
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Success Stories
and more

Building Flexible Solutions for Rapidly Developing Markets

Exporters have to constantly adapt to meet the requirements of foreign buyers and market conditions. EDC is also adapting to make sure we remain a valued partner in Canadian export success in higher-risk markets.

Rob Wright, President and CEO

EDC intends to do more to increase the overall volume of Canadian exports and investments in developing markets. We are pulling together the expertise of our representatives working on location in key foreign markets, our market specialists in Ottawa, and our insurance and finance teams to develop better products and services for Canadian exporters. We will leverage our balance sheet to take on greater levels of risk and increase our financing program where Canadian companies need it.

EDC's mandate provides both the breadth and flexibility to support the Government of Canada's emerging market strategies, particularly for emerging and challenging opportunities in key markets such as Brazil, India and China. As a key instrument of public policy, EDC is working to ensure that strategies take into account the specific and multi-faceted needs of our clients, who are seeking to boost productivity and international competitiveness to meet the challenges of integrative trade. Enhancing our support for Canadian direct investment abroad and for innovative export-oriented technologies are examples of areas where EDC could meet the changing needs of both Canadian exporters and investors.

Enhancing our support for Canadian direct investment abroad and for innovative export-oriented technologies are examples of areas where EDC could meet the changing needs of both Canadian exporters and investors.

EDC has a good track record to build on. In the first half of 2005, EDC supported $6.4 billion in trade in developing markets, a 20 per cent increase over the same period in 2004. In the Andean countries discussed in this edition of *ExportWise*, in 2004 we facilitated more than $507 million in exports and investments to Colombia, $380 million to Peru, $199 million to Venezuela, $40 million to Ecuador, and $6.6 million to Bolivia. One of the ways we help in such markets is by financing purchases of Canadian goods and services. Two examples of how EDC financing has pulled Canadian exporters into foreign supply chains are featured in this issue, in the stories of Brazilian iron ore producer Samarco and Chilean forest-products company CMCP.

We are listening to exporters and their foreign buyers and increasing our understanding of opportunities and barriers to trade. Markets change rapidly, and we will adapt to ensure we continue to provide competitive financing and flexible solutions so that Canadian exporters are equipped to take on developing market risks – and opportunities. ■

Rob Wright

Rob Wright
President and CEO

CONTENTS

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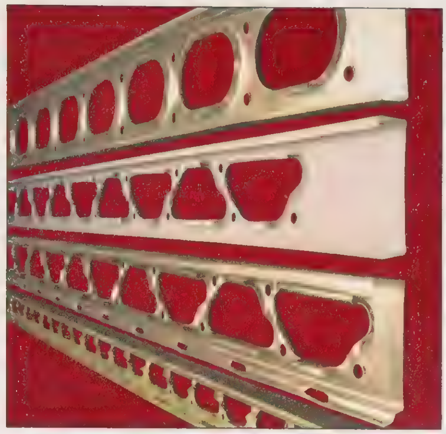


Cover photo © Martin Lipman

TMCP: Steel Deals

BY **ALEX REEVES**

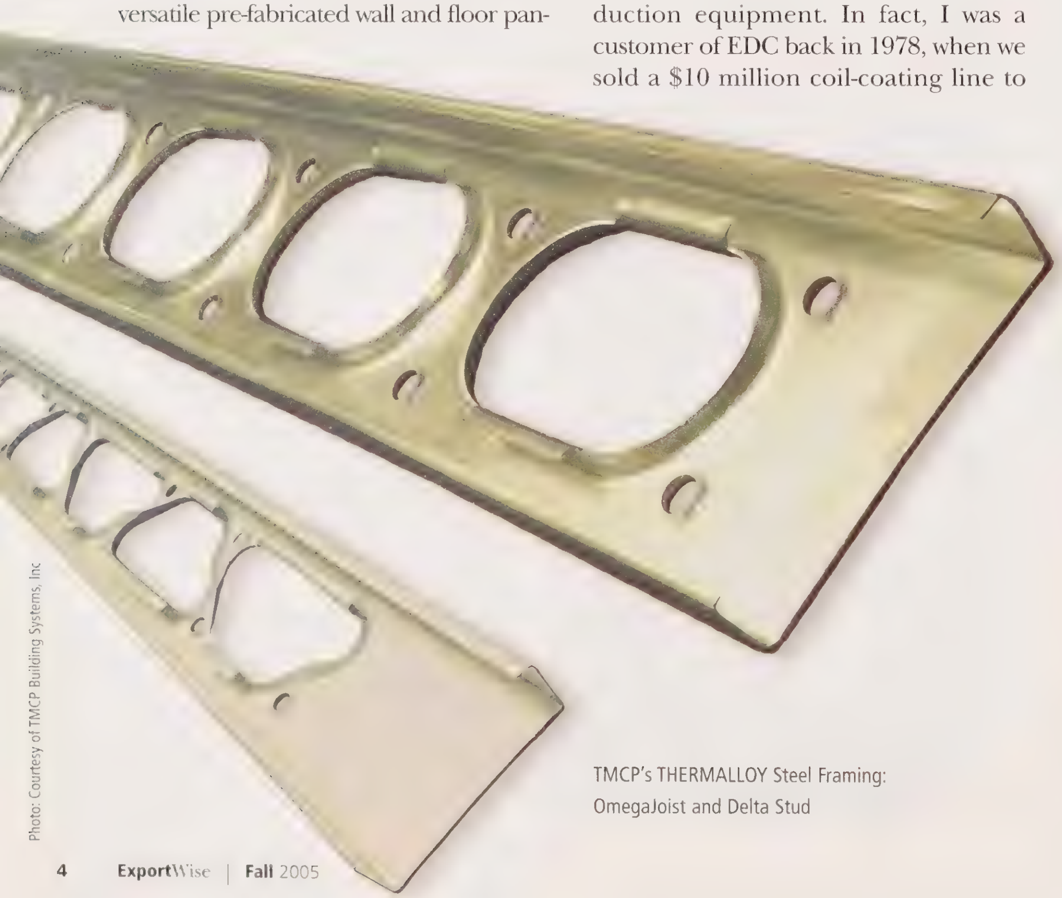
It's often said that trade has made the world a smaller place. Ernest Bodnar must have surely felt that way a year ago when the Mammut Group of Dubai, United Arab Emirates (UAE), unexpectedly called on his company, TMCP Building Systems, Inc. of Burlington, Ontario.

Established in 2002, TMCP has primarily functioned as an R&D company, developing their flagship products – proprietary cold-formed steel framing members – whose "open web" design gives it the highest strength-to-mass ratio of any light gauge structural framing material on the market today. Married to a proprietary concrete formulation, these framing members have become the backbone of TMCP's highly versatile pre-fabricated wall and floor panels, which are 70 per cent lighter than conventional concrete panels and possess exceptional strength and thermal resistance properties.

TMCP was founded by Ernest Bodnar, a renowned authority in metal-processing machinery, steel-roll forming and construction product technologies. Bodnar is also no stranger to exporting. "When I owned B&K International, I exported 80 per cent of my metal-production equipment. In fact, I was a customer of EDC back in 1978, when we sold a $10 million coil-coating line to Prefinished Metals of Toledo, Ohio. Today, most major metal-processing companies around the world operate B&K equipment."

Although TMCP had already broken the ice with potential buyers in China, the export of TMCP panels was not expected to become an immediate reality. That changed in a heartbeat when the Mammut Group came to Ontario to purchase specialized metal-cutting equipment from Burlington Automation, TMCP's long-standing equipment supplier. "By chance, they told Burlington Automation that they were hunting for a leading-edge concrete panel technology and had so far failed in their worldwide search," relates Bodnar. "Our friends at Burlington Automation, who knew our capabilities, kindly told Mammut we would be worth a look. It turns out we had exactly the solution Mammut was looking for. Two weeks later, I was on a plane to Dubai and returned with our first licensing deal."

The mammoth that appears on the Mammut company logo is a perfect icon of this dominant UAE-based producer of pre-engineered and structural steel buildings. Now, it is reaching beyond the UAE after having built the world's largest pre-fabricated concrete panel plant, with a four million square metres annual production capacity that is expected to grow to six million square metres by 2006. Its products, which will include TMCP's patented panel



TMCP's THERMALLOY Steel Framing: OmegaJoist and Delta Stud

Photo: Courtesy of TMCP Building Systems, Inc

TMCP's THERMALLOY Precast Concrete Panels

Photo: Courtesy of TMCP Building Systems, Inc.

technology, will be sold throughout the Gulf Cooperation Council countries, as well as parts of Africa, Pakistan and Bangladesh. It also holds the exclusive license to produce TMCP panels in Iraq and Texas.

But getting TMCP to sell its technology to Mammut involved clearing a major hurdle. "As an R&D entity up to that point," explains Tim McGuire, EDC's Business Development Manager for the Ontario Region, "TMCP had little or no prior revenue history, so they lacked the financial resources to guarantee the performance bond Mammut needed to issue a letter of credit for a multi-million dollar contract."

"It's good to know we can team up with institutions like Northstar and EDC to help us do this kind of business."

Both TMCP and Mammut knew an alternative had to be found in order to save the deal. Now it was TMCP's turn to give someone else a lucky break. "Mammut told us they were looking at securing financing in the United States, which would get around the need for a letter of credit," tells Bodnar, "so I asked them 'why go to the United States when you can probably get financing right here in Canada?' I told them we should talk to EDC first." Northstar and EDC were eager to help.

"I've known Ernie for over 20 years," explains David Little, Senior Business Development Manager for Northstar, "he's been a leader in his field since the mid-1950s, a successful entrepreneur, and I was looking forward to helping him get this new Canadian technology off the ground. Through our agreement with EDC, we finance export sales of $5 million or less. If the buyer passes our due diligence and EDC's, EDC becomes our insurer and the transaction goes ahead."

Once Northstar analyzed and recommended the transaction, it was time for more flights to Dubai. Northstar Chief Credit Officer Milton Spidla and EDC Financial Services Manager David Baron visited Mammut's facilities to conduct their due diligence on site. Credit approval followed soon after.

Since April 2005, TMCP has been busy shipping custom equipment to produce its steel framing members and composite concrete panels. Soon, a new Canadian technological advance will spread to the Arab Gulf, Africa and Asia. "It doesn't stop there," according to Bob Hajek, Senior Vice-President at TMCP, "we've signed a licensee for Canada. We're also chasing agreements in China and Indonesia. It's good to know we can team up with institutions like Northstar and EDC to help us do this kind of business."

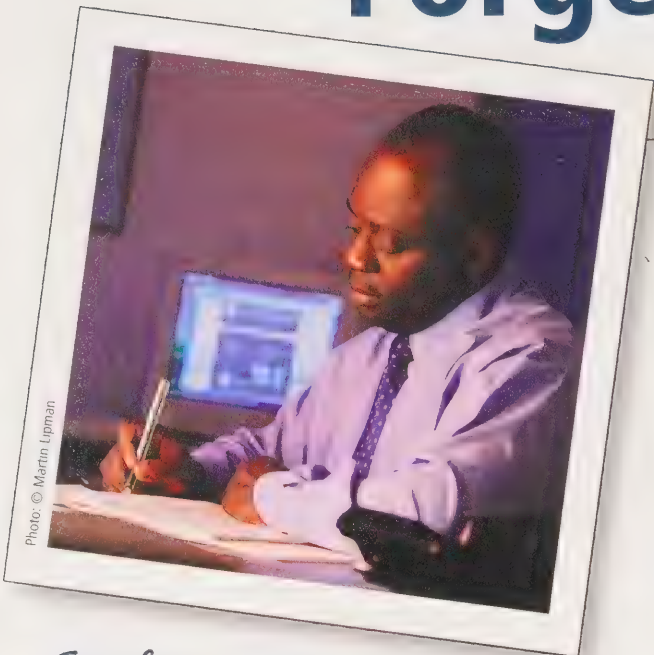
"It's one of those deals you'll always remember," says Little. "It's gratifying to take a good company with a good technology beyond the R&D stage and help it sell and compete in the global marketplace, where it belongs." Tim McGuire agrees: "So many Canadian companies are leaders in their field, and it's very rewarding to know you can play a role in their success, including those that are experienced exporters."

With one mammoth international sale on their ledger and surely others to come, TMCP has arrived on the global marketplace. Only time will tell how great its export sales will become, but one can be certain that EDC will be watching closely, hoping to help Bodnar and his company perpetuate a tradition of innovation and international success. ■

COMPANY PROFILE

Company: TMCP Building Systems, Inc.
Business: Manufacturing/licensing of light gauge framing and composite construction products and technology
Location: Burlington, Ontario
Established: 2002
Employees: 13
Export Markets: Africa, Bangladesh, China, GCC, Indonesia, Iran, Iraq, Pakistan, United States
Contact: www.tmcp.ca

Diary of an Exporter, Part 4
Clinotech Forges Ahead



BY **DENNIS** AND **SANDI JONES**

In our final instalment of "Diary of an Exporter," we bring Clinotech's story up to the present day. Only eight years after its founding, the company has become an international success, with its own factory in Canada and dozens of markets around the world. Here's how the business has grown since we last looked into Dr. Ofiyai's diary…

Early 2003

I'm happy to say the year is off to a good start. I've followed up on the leads we got at the MEDICA trade show in Germany last November, about doing contract manufacturing for medical supply companies in the United States and Europe. I zeroed in on the ones that are a good fit with our product line and that can provide us with the profit margins we need, and as a result we'll soon be manufacturing products for two U.S. companies and an Italian firm.

Even better, we still have plenty of production capacity, enough to meet our contract manufacturing commitments and supply our current distributors as well. So I won't have to say no to new orders, just as long as we can meet the client's delivery and technical expectations. This also means I can keep looking for new distributors. We have more than 30 of them now, in 30 countries, but that's no reason to stop!

Spring 2003

I've been keeping busy, not just with looking for new markets, but also with our quality management team, our business development group and our marketing group. Senay, my wife and business partner, has been working directly with the production group and is also involved in quality control and assurance, along with overseeing the purchasing of raw materials.

Despite being busy, though, I've been keeping an eye on our older markets. I like to pay close attention to our distributors there, not just because they've been working with us for years and know our products, but because I can keep track of whether they're meeting our expectations. That's really important if we've given them an exclusive distributorship. If we find out they're not performing, and we can't resolve the problem, we can make them non-exclusive distributors and then find other distributors in that market.

We've also discovered that when we go into a new market, we're often asked for exclusivity. When we were starting up, I avoided agreeing to that kind of arrangement. But nowadays, if I can be satisfied that a distributor can do everything we need in a particular market, it can work well. But I always ask for at least a three-year business proposal based on minimum sales volumes. If that passes review, we can let the company act as our sole distributor in that market – as long as they meet expectations!

June 2003

Our lease on this building ends in December, and I've decided it's time we bought our own factory. I can't see us building a new place from the foundation up, so I'm going to find an existing one that we can adapt to our needs. Next step: start looking into costs and financing.

November 2003

Well, I've completed the purchase of our first factory building, and we'll be moving in at the beginning of 2004. Getting financing was no trouble at all – the BMO Bank of Montreal said that Clinotech's sales and growth justified buying a building, so we should go ahead, and we did. Better yet, the new place is twice as big as the old one, so we'll have plenty of expansion room.

Winter 2004

We're in our factory now and the production line is humming along. Now that the move's complete, I've had some time to look at a new market area: Africa. Communications have improved there during the past few years, which makes it a much better prospect than it was, so I'm working with my contacts to find some possible distributors. We'll see what happens.

I was talking a while ago to Rakesh Vig, our Relationship Manager at the BMO Bank of Montreal, about Clinotech's progress. He suggested we could offer more purchasing options to our distributors if we used the services of EDC – deferred payment options, for example. It's something I'll definitely have to look into when I can find the time. I'm even busier than usual at the moment.

Spring 2004

EDC in Ottawa recently sent me an information package, which has reminded me of the conversation I had last winter with Mr. Vig. I think Clinotech could use EDC's services, so I've completed the forms and sent them back. I've also asked if I could deal with the local Vancouver office, which would be more convenient from my point of view.

Summer 2004

I've now been in touch with the EDC Business Development Manager in the Vancouver office, Bryan Hughes. We had a long discussion and I'm convinced that EDC could be useful to Clinotech, especially its Pre-shipment Financing. If we qualify for it, we can let our distributors defer their payments until their shipments arrive, and that would make them very happy. They could also increase the size of their orders, which would obviously be good for Clinotech. It would work out well for everybody. I'm definitely going to pursue this.

November 2004

We're now working with EDC! We've set up our first pre-shipment financing arrangement, which is certain to bring us new customers, and I'm sure a lot of our clients will increase the size of their accounts as well. We also qualify for Accounts Receivable Insurance, and that will keep us out of trouble if one of our distributors gets into financial difficulties. All this

Photo: Courtesy of Clinotech

means that Clinotech can grow even faster than I'd hoped. And that's important, because we've got distributors in Africa now and we're expanding into Southeast Asia, too.

Early 2005

Our new markets in Vietnam, Cambodia, Indonesia and Sri Lanka have been picking up very rapidly. As well as attending to those, I'm increasingly involved in refining our quality management system so we can get the updated versions of ISO 13485 and CE certification for In-Vitro Diagnostics (IVD) Medical Devices this year. That's keeping us all busy, including Senay, because the ISO standards affect everything we do – who we use to supply raw materials, how our production line works, how we market, even how we pack our products for shipping. But we're making excellent progress.

Summer 2005

I thought I'd take a moment and look back at what's happened since I first imagined having my own business. What a difference eight years makes – it was just an idea then, but now we have a real factory I can walk around in, and we have customers all over the world. I guess we've succeeded!

So where do we go now? The export market is so competitive that we can't simply rest on our current success. But there are lots of possibilities. Some of our major markets are moving toward local manufacturing, and we should be ready to arrange joint ventures or other kinds of co-operation with them. And we've reached a stage now where I believe we can approach organizations like the Canadian International Development Agency and the International Development Research Centre.

All in all, it's been an amazing eight years. Surprises along the way, some headaches, a lot of great moments, and a sense of real accomplishment. So I'm glad I took the plunge back in 1997. It was a risk, but we pulled it off, and I've never regretted it for a moment.

Here's to the future!

If you'd like more information about Clinotech, be sure to visit the company's website at www.clinotech.com. Previous instalments of the diary are available at www.exportwise.ca.

Small Business Perspectives

Getting Ready to Export

BY **DENNIS** AND **SANDI JONES**

Your company's small, but it has a first-class product or service, and you've been very successful in Canada. Now you're wondering if you might be able to achieve the same success in other countries.

But can a small business like yours, with less than a million dollars in annual sales, succeed as an exporter in today's highly competitive global market?

"The answer is absolutely yes," says Erin Wilkinson, Export Link Coordinator at the Business Link, a member of Canada Business, a collaborative network of federal government services designed to help Canadian entrepreneurs and exporters build their companies. "If your company has the right products or services, and approaches exporting in an innovative way, you can do very well abroad. The key is to be very focused and very creative."

Getting the essentials right

When considering an export venture, the first question to ask is whether your company does, in fact, have good reasons for doing business outside Canada. If you can answer yes, and if you're willing to commit time, money and motivation to the project, you've laid the foundation for export success.

The next step is to identify your most promising foreign markets, and establish realistic objectives for entering them. Doing this, however, will require a substantial amount of market research and analysis, and many small businesses don't have the time or resources to do this by themselves.

Fortunately, assistance with market research is easy to obtain. Not only is there a vast amount of data available, there are several services that will help you find the kinds of information you need. The Canada Business network, for example, is an excellent entry point for aspiring exporters. "We offer several levels and types of training for potential exporters," notes Wilkinson, "including free, one-on-one consulting tailored to the specific needs of the entrepreneur. We also provide a wide range of resources, including no-charge access to large, specialized databases that are very useful for international market research."

Doing some of your own market research is also a good idea; you're the best authority on your company and its product, after all. One indispensable resource is the ExportSource website operated by Team Canada Inc. (TCI), which offers a vast range of export-related links and information. (You'll find contact information for ExportSource and other key export services at the end of this article). Another is Industry Canada's Strategis website, which can point you to specific information about your business sector.

Tracking economic indicators in foreign markets will also help you focus your research. In particular, check the market- and sector-specific information available through the Trade Commissioner Service's Virtual Trade Commissioner. And be sure to take advantage of SourceCan, an electronic marketplace listing business opportunities around the world.

Assessing your capacity

Your research may show that there's a clear demand for your product or

service abroad. So far so good; but now you have to figure out whether your company has the capacity to do business outside Canada. Consider, for example:

- Human resources – can you and your employees handle the extra work involved in the export project?
- Production capacity – can you meet the additional demands of an export market?
- Financial resources – can you obtain enough capital to support your export venture until it becomes profitable?

TCI's Exportsource website has an online Export Readiness Diagnostic that will help you work through this stage. For potential service exporters, TCI's "Take a World View" serves a similar purpose. EDC also offers its EXPORT *Able?* questionnaire to assist you with your self-assessment.

Creating your export strategy

The next stage in your export venture will be to draft an export plan. This plan uses the results of your research to refine your export goals and to specify how you'll achieve them. It also sets out your approach to entering the specific market(s) that your research has identified as the best for your company.

An export plan can be very detailed, and you'll probably welcome some help with yours. Export Link, part of the Canada Business network, offers a downloadable guide to writing one; you can also check Exportsource for further tools and information. Be sure to ask for guidance at your local Canada Business office, too.

Reviewing your export strategy

Promising markets sometimes turn out to be complicated, meaning that devising a market entry strategy could be difficult. Because of this, you should discuss your export plan with people who have specialized knowledge about the market(s) you've chosen to enter. Again, your local Canada Business office will refer you to the resources and organizations that can help you do this.

With your export strategy in place, you're ready to move to the next level of assistance. For many exporters, this is their local International Trade Canada Regional Office. Operated by the Canadian Trade Commissioner Service and located in every province, these offices provide one-on-one export help, specialized market and sector information, leads to trade fairs and missions, and help with export financing. Once you've taken advantage of the help they offer, you'll be well-prepared for your venture into foreign trade.

But where's the money?

Exporting comes with many obvious and not-so-obvious costs, such as marketing costs, shipping and brokerage fees, insurance premiums and business expenses for travel abroad. There can also be capital costs for increasing production capacity to meet foreign demand.

For very small companies, obtaining the financing to cover such expenditures may be difficult. While businesses with annual sales of around $5 million can obtain commercial loans from their banks, this option isn't usually available to very small firms that do their financing at the retail or small-business-loan level. Larger exporters, however, can obtain help through EDC, in the form of Pre-shipment Financing, Accounts Receivable Insurance and other financial instruments. But small companies doing deals in the under-$100,000 range usually can't get such assistance.

EDC has recently undertaken an intensive analysis of the financial services available to small and very small exporters. As a result of this research, a new small business service delivery model has been created to serve more small exporters better. "The issue," says EDC's Carl Marcotte, Vice-President, Small Business Development Group, "is the financial services gap that exists for small exporters if they don't have a 'commercial banking' relationship with their financial institution. We know there is a need in this area. So we are actively working to enhance and add to our existing products to address this gap and give us new ways to help these exporters."

What other ways exist for an aspiring exporter to finance a venture into foreign trade? Several provinces have programs that offer various kinds of assistance, and there are also federal programs available; you'll find a comprehensive list on Industry Canada's Strategis website. TCI's Exportsource also provides a wide range of resources about export financing.

Getting ready to export can be a time-consuming and sometimes difficult task. But it's important to remember that many small companies have done exactly what you're doing, and have succeeded on the international stage as a result. With the right mix of product or service, a generous helping of creativity and innovation, and a commitment to becoming an exporter, there's every chance that you can be among them. ■

EDC'S SMALL BUSINESS DEVELOPMENT GROUP

EDC's Small Business Development Group is working toward making EDC's services and products more relevant to smaller businesses. If your company has up to $5 million in annual sales, and if you'd like to tell us how we might better help you meet your financial needs as an exporter, please call **1-888-754-0509**, weekdays from 7:30 a.m. to 6 p.m. EST, or email us from the Contact Us page of **www.edc.ca**.

GET MORE INFORMATION

Canada Business **www.cbsc.org**

Canadian Trade Commissioner Service **www.infoexport.gc.ca**

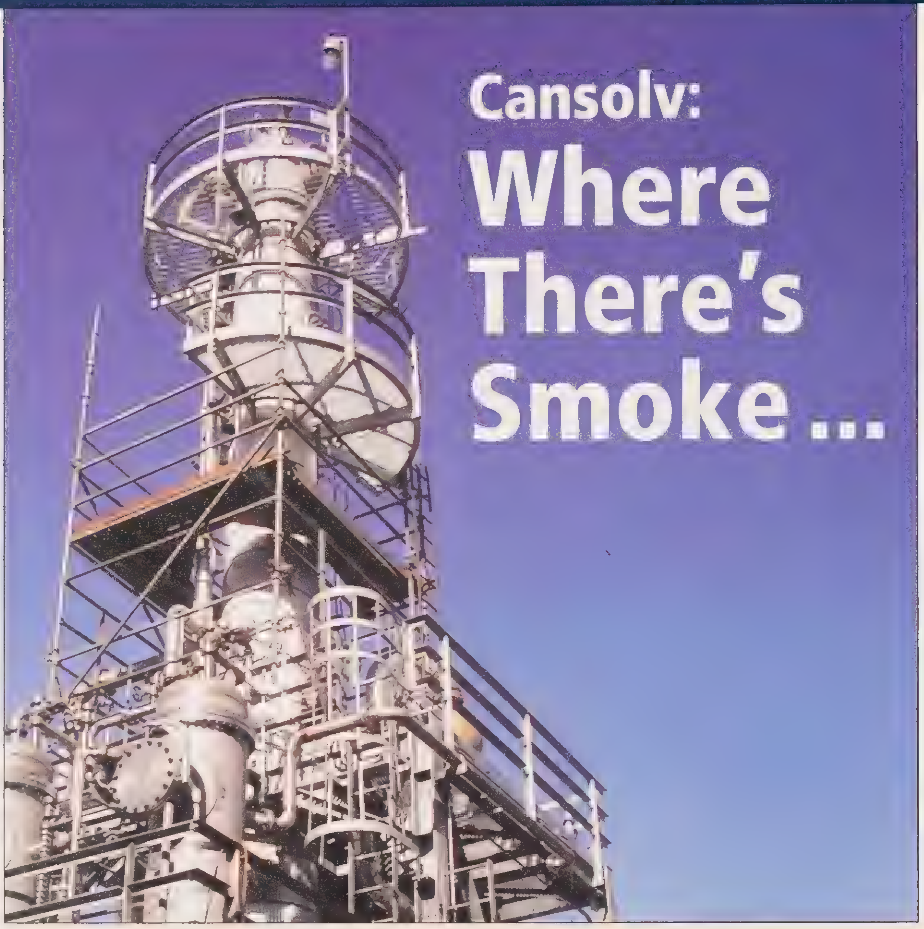
Export Development Canada **www.edc.ca**

Exportlink **www.exportlink.ca**

Exportsource **www.exportsource.ca**

International Trade Canada Regional Offices **www.infoexport.gc.ca/regions**

Strategis **www.strategis.gc.ca**



Cansolv: Where There's Smoke ...

Photo: Courtesy of Cansolv Technologies Inc.

Cansolv® SO2 Absorption System

BY **TERRI-SUE BUCHANAN**

Any industry that involves an industrial smokestack presents certain environmental challenges, particularly noxious emissions. But if you can "scrub" certain elements such as sulphur dioxide out of the emissions, you are one step towards a substantial reduction in stationary source air pollution.

A group of entrepreneurial developers for Union Carbide were working on this unique technology when in 1994, Union Carbide decided that it was not part of its core business and planned to abandon the technology. The four developers, who believed in the technology, put a company together to acquire the technology, eventually creating Cansolv Technologies Inc. in 1997.

They sold their first commercial unit in 1999 and currently have one operating in a petroleum refinery in California, one on a waste chemical incinerator in Belgium, and one for SO@Safe production in the Montreal area. Four additional units are under design and construction. Each is custom designed and built for the client, depending on the volume of gas emitted.

The technology recovers sulphur dioxide (SO_2), says President Marcel Ayotte. In fact, the Cansolv® SO2 Scrubbing System is the world's leading regenerable SO_2 control technology, a process that removes SO_2 from industrial gas streams. The recovered sulphur is more than 99 per cent pure and can then be sold and converted into sulphur-based by-products.

"Our primary market is the oil and gas, smelter, suphuric acid and coal burning industries – any industry that involves SO_2 emissions. Our customers are either required to reduce SO_2 emissions through government regulations, or are looking to the future when they know they will have to contain emissions," says Ayotte.

Market growth will accelerate, observes Ayotte, because of rising energy costs and impending legislation in Europe and the United States which should lower caps for SO_2 and NO_2 emissions. Cansolv is also targeting developing countries with large industrial emissions such as China, India and Russia, which will have to show pollution reductions as part of qualifying for World Bank financing. "In fact, the future of the technology is great, as most countries around the world are trying to reduce SO_2 emissions."

EDC has been with Cansolv since they sold their first unit, says Ayotte. EDC insured the initial contract as a performance guarantee, giving Cansolv's customers assurance that the process would work. And with so much R&D invested in the sale, Cansolv used EDC's Accounts Receivable Insurance to ensure payment. Cansolv recently used EDC's bonding services on an Indian contract to install an SO2 scrubbing system to capture all the SO_2 from a smelter plant. Ayotte adds, "With exports accounting for 90 per cent of sales, and potential contracts arising in Russia and China, the relationship with EDC should grow." ■

COMPANY PROFILE

Company: Cansolv Technologies Inc.
Business: Air pollution control solutions
Location: Montreal
Established: 1997
Employees: 27
Exports: 90%
Export Markets: United States, Belgium, India
Contact: www.cansolv.com

Tailoring the Future

Canada's Apparel Industry in a Post-Quota World

BY **DENNIS** AND **SANDI JONES**

As the sun rose on January 1, 2005, it brought with it a new reality for Canada's apparel manufacturers. On that date, the last of the import quotas that had protected our clothing sector from overseas competition became history. Canadian apparel businesses are now competing nose-to-nose in the world market with low-wage manufacturing behemoths like China and India.

Photo: © Alexander Walter/Getty Images

Cutting the quotas

This didn't happen overnight. Rather, it was the final step in a process that began in 1995, when the countries of the World Trade Organization established the Agreement on Textiles and Clothing. The Agreement set out a 10-year schedule for removing all the textile and apparel import restrictions – known as quotas – that governments use to protect domestic companies from low-cost foreign manufacturers. As these barriers vanished, former buyers of Canadian-made apparel, both at home and abroad, began to import more and more clothing from countries such as China and India. The result has been a steadily falling market share for domestically made apparel.

This is no minor matter, given that Canada's apparel industry accounts for a significant chunk of the country's manufacturing activity. By Industry Canada's reckoning, it's our tenth-largest manufacturing sector nationally, accounting for $7.3 billion worth of GDP in 2003. It has made us well known, especially in the United States, for men's tailored clothing, women's sportswear, outerwear and furs. During 2003, in fact, 94.3 per cent of our apparel exports, out of a grand export total of more than $2.7 billion, went south of the border. This, unfortunately, was not to last; in 2004 our total exports fell to just more than $2.5 billion, as foreign buyers shifted more of their purchasing to lower-cost suppliers.

One size doesn't fit all

With the quota protections now gone, Canada is faced with competing in a newly levelled, international clothing market. Despite the apparel sector's domestic importance, however, we remain a small player on the global stage, and can't hope to compete with the giants on the basis of low prices and high volumes. As a result, we'll have to develop new, creative tactics to ensure the industry's health and success.

The best approaches for Canada may lie with innovative design, highly responsive logistics and procurement networks, and excellent customer service at the manufacturer-retailer level and at the retail sales level. We do have real and potential strengths in these areas, but we need to develop them.

Photo: Courtesy of the Canadian Apparel Federation

Where are we strong?

- Major expertise in specialized areas
- Creation of niches across the North American market
- First-class service and distribution infrastructures
- Excellent customer service strategies
- Creative and innovative fashion design

STRENGTHS

Patterns of strength

What might these strengths be? Viren Joshi, Senior Underwriter at EDC, has some observations. "The companies that are going to survive have identified the right way or ways to deal with their particular situation, and are acting accordingly. It may be that they have the best technology, or that they're very efficient, or that they're capital-intensive rather than labour-intensive, and so on."

Joshi sees some specific strengths in the industry. "One strategy our successful companies use is to become experts in a certain area. One manufacturer, for example, produces jeans on all scales, from the huge quantities required by the big-box retailers to the exclusive $300-a-pair versions sold by boutiques. Niche markets are another approach. Sometimes geographical proximity can help here; there's a company in Vancouver that makes equestrian clothing, and it's surviving nicely because it's close to a U.S. market where its products are in demand."

Another expertise-based strategy is to be very good at fashion and design. Several Canadian companies take this approach, setting fashion trends while having some of their goods manufactured abroad. They ship these goods around the world, but they've built their business on the boutique trade, not mass merchandisers. In effect, they're Canadian companies that happen to produce their goods overseas.

Snipping out a niche

Elliot Lifson is Vice-Chairman of Peerless Clothing Inc. and President of the Canadian Apparel Federation (CAF), the national association that represents the industry's hundreds of companies. Like Joshi, he sees a knack for specialization as one of our strengths. "Smart companies find niche markets," he says. "They're innovative with fashion products, and at the same time source these products partly in Canada and partly offshore. So the domestic industry isn't going to disappear, not if we keep our strategic advantages in marketing, design and service infrastructure. Those are critical factors for maintaining our position."

From one perspective, in fact, the whole Canadian apparel industry is a mosaic of niches inhabited by businesses doing specialized things. The successful ones, observes Bob Kirke, CAF Executive Director, aren't necessarily those with the lowest prices; their strong suit is likely to be an efficient and responsive customer service strategy, one that isn't restricted by borders. For example, says Kirke, "Suppose a small independent retailer in Tennessee finds he needs 20 pairs of trousers from his Montreal manufacturer. He phones the order in to the Montreal office and in two days he has it, supplied from the manufacturer's Vermont warehouse. It's very simple and very efficient."

The freeing of international trade during the last decade has also provided Canada with some strengths it didn't have before. Our apparel sector infrastructure is one of the best in the world, and we export much more clothing to the United States than we did before the 1989 Free Trade Agreement. In some senses, indeed, our clothing manufacturers are no longer Canadian companies, but North American businesses producing for the North American market. This larger world view gives us a perspective that will be indispensable as we move into non-U.S. markets – which we must.

Photo: © Getty Images

> **Where are we weak?**
> - Past complacency about our competitiveness
> - Inconsistent government tariff policies
> - Supply chain inefficiencies
> - Lack of access to capital
> - Lack of comprehensive training programs for the industry

WEAKNESSES

Unfashionably out of touch

Our strengths will probably outweigh our weaknesses in the long run, but the latter aren't trivial and can't be ignored. They arise in part, says Joshi, from complacency during the past years about what the industry was facing. "There was too much reluctance, in some quarters, to realize that a global apparel giant was awakening around the world, not just in China or India, but everywhere. As a result, a lot of small, inefficient companies are going to die a quick death unless they change drastically."

There are also problems related to tariffs (as distinct from quotas). This is a particular concern of Alvin C. Segal, C.M., Chairman and CEO of Peerless Clothing. "If a Canadian manufacturer imports cloth into Canada to make a pair of pants," he points out, "the manufacturer has to pay a 12 per cent tariff on the fabric. But if he sends exactly the same cloth to Bangladesh, has the pants made there and then brings them into this country, there's no tariff. This situation discourages production in Canada, and the CAF is working with the federal government to change it. Specifically, we believe that the apparel industry should be allowed to source inputs worldwide, without having to pay tariffs on foreign-made fabrics that are imported into Canada for the manufacture of finished products."

Even where tariffs aren't an issue, it can still be difficult to move goods across borders. "The buy-American mindset in the United States," says Joshi, "can cause problems. To deal with it, a Canadian company creates a shell company in the United States and ships from that address, using agents and distributors. This can weaken that same Canadian company because it adds costs and makes the supply chain inefficient."

Frayed around the edges

Other problems troubling the sector have been companies' inattention to the heightened competition they face at home and abroad, and failure to think about the ways their service, product, expertise or design could find them a more secure place in the market. Depending on the product isn't enough; in a quota-free world, product-driven companies will almost always be weaker than market-driven ones.

Another weakness is lack of access to capital. Some financial institutions, according to Kirke, now perceive the apparel sector as a vanishing business and are reluctant to issue credit. The sector must do more to improve its relationship with its financial institutions – especially since successful companies are going to be involved in increasingly complex financing for their export deals.

Last but certainly not least, there's the question of developing the top-flight design, business and technical talent that will support the new strategies the sector will need to compete at home and overseas. We're not as strong as we could be in some of these areas, and might profit from examining the comprehensive approach that's used in overseas institutions like Hong Kong Polytechnic. This institution and others like it teach design, marketing, merchandising and production in an integrated way, so that their students graduate with a well-rounded education that prepares them for careers in all aspects of the apparel industry.

Photo: Courtesy of M Siamo Collection Inc.

Where do our opportunities lie?

- Establishing high price-value relationships in products and services
- Recreating the sector as a fashion industry rather than a commodity industry
- Expanding exports to the United States
- Providing unequalled customer support
- Identifying new niches and filling them

OPPORTUNITIES

Seamless relationships

There are several major areas where Canada's apparel sector can find opportunities. One of them lies in improving the price-value relationship our companies can offer.

"Price-value relationship," of course, doesn't mean becoming a low-cost producer; that isn't anywhere on Canada's horizon. What it does mean, says Lifson, is design, delivery, quality, and fit *in relation to* the price. "If you can maintain a good price-value relationship, it will answer all those other questions about how you can compete and how you can play to your strengths. So if you're at the bottom of the commodity market in apparel and your price points are eroding, your best opportunity for surviving is to move up the value chain and establish a very good price-value relationship."

A second great source of opportunities lies in recognizing that the sector is no longer just an apparel industry. It's also a fashion industry in which innovation and design are keys to success. Apparel in itself is becoming merely a commodity, and Canada can't compete, for the most part, with pure commodity manufacturers. But we can certainly compete in the fashion arena, and do. There's a treasure trove of design talent in the country, and in Montreal in particular we have a creative melding of European and North American influences. This could ultimately translate into a demand for the kinds of clothing that low-cost commodity producers can't match.

Sewing up service

More possibilities lie in the realm of customer service. This can take different forms, but for Peerless Clothing Inc., it's their in-stock replenishment program. "We have the best customer service staff in the industry and a superior logistics and distribution network, and in effect, we're managing the retailers' inventories for them. We help the retailers increase their turnover, and that's a real competitive advantage for them. So they see us as a very important supplier," says Segal.

As mentioned earlier, identifying niches and filling them can also be a source of endless opportunities. It doesn't need to be as exotic as equestrian wear; Peerless is a volume producer of men's suits, the largest in North America. Another company, once a short-run producer of denim, is now the only jean jacket maker in North America, and has expanded into promotional products and high-end denim fashions.

The market of greatest immediate opportunity remains the United States. Our annual exports to the United States are a mere 1 per cent of that country's clothing market; if we could capture 2 per cent of it, the total would be nearly as large as the entire Canadian domestic market. Moreover, our geographical proximity to the United States gives us a unique competitive advantage in both supplying and servicing it – all the more so, perhaps, because very few apparel factories remain in the United States, except for a few highly specialized ones. There's an enormous market right across the border, one that we've only begun to tap.

The quality of goods coming out of China is increasing yearly, and so is the service.

Photo: © Steve Raymer/Getty Images

What threatens our sector?

- Competition from low-cost producers abroad
- Shrinking exports and falling domestic demand
- Declining domestic employment
- Over-capacity in the industry worldwide
- Unpredictable import restraints in the U.S. market
- Low-cost producers moving up the price-value scale

THREATS

An unravelling status quo

The quota reductions of the last 10 years have had some very negative effects on Canada's apparel sector. To give just one example, Statistics Canada's figures show that employment in the industry has fallen precipitately, from 94,000 jobs in 2002, to 84,000 in 2003 and to 71,000 in 2004 – a decline of 24.4 per cent in only three years. The bulk of these losses were in Quebec, which is home to the largest single concentration of apparel manufacturers in the country. Many of these jobs, which ranged from entry-level work to highly specialized trades, will be hard to replace.

Another measure of change is the decline in the number of business establishments in the sector; during 2004, it dropped by 3 per cent from its 2003 total of 2,700 companies. Total apparel exports shrank from more than $3 billion in 2000 to $2.5 billion in 2004, for a decline of 16.6 per cent. Exports to the United States, the foreign mainstay of the industry, fell by 19.9 per cent between 2000 and 2004.

One of the most important things about apparel manufacturing, according to Lifson, is that worldwide capacity is twice worldwide demand. One effect of this over-capacity is the flood of low-cost imported goods into Canada; by 2004, clothing from China alone had seized 36 per cent of Canada's import market share. China's chief advantages here, and therefore its chief threats to Canada, are its cheap labour, rising productivity, and the financial and marketing expertise it obtains from Hong Kong.

Imports from India and Mexico have also eroded our manufacturers' market share. Indian clothing has captured about 7 per cent of our import market, while Mexico's share has increased to 5 per cent.

Wrinkles in the market

Another long-term threat is that the countries now occupying the commodity end of the market, as distinct from the fashion and design end, are inevitably going to move up the price-value scale. The quality of goods coming out of China is increasing yearly, and so is the service. Other countries, such as Malaysia and the Philippines, are already making quality garments, and can be expected to build on this.

The elimination of quotas hasn't freed the market entirely. Almost as soon as the restrictions vanished, the United States imposed a number of temporary restraints on Chinese imports. This has had unexpected repercussions. "Before January 2005," says Kirke, "we had a predictable system of import restraints. What we have now is a very unpredictable, confusing system because of these temporary measures by the United States." For smaller companies, and even some larger ones, this turbulence can make life very difficult. As just one example, a Canadian manufacturer who is having a product made in China, and is sending it directly from there to the United States, may find that the shipper isn't allowed to land the goods in the U.S. port of entry. The financial consequences of this, especially for a small company, could be severe.

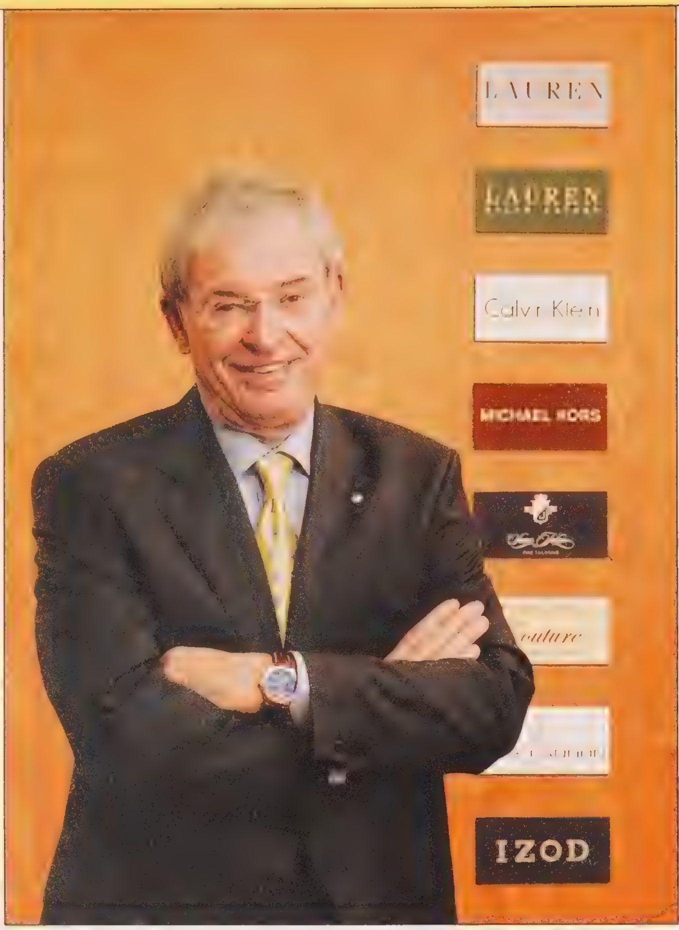


Photo: © Martin Lipman

Alvin C. Segal, C.M., Chairman and CEO, Peerless Clothing Inc.

SUMMING UP

Future fashions

"I think we're in for two or three years of confusion," says Kirke, "although I also believe that things will be somewhat more manageable by the end of 2005. However, we still have to face the realities. There will be less clothing sewn in Canada, and we're going to see some small to mid-size businesses vanish because they can't compete in the new environment. At the same time, though, I think we'll have just as many Canadian brands and companies doing well in the future as we do now. This will be true even though our domestic retail stores won't be buying as much product from Canadian suppliers as they used to."

What about the threat from China and other low-cost producers? Kirke believes that Canadian manufacturers must either look at sourcing from China or find ways to produce apparel here in ways that China can't match. They must also find market positions that play to their unique competitive advantages, whether these are in marketing, design, infrastructure or logistics.

That said, the Chinese aren't going to stand still, either. They have a long history of being excellent entrepreneurs, which helps explain why China is showing such compelling economic strength across the board. The days of protection from that strength are gone, and like it or not, we will have to adjust.

What can the EDC CAF Master Policy offer me?

- One pooled rate for all Canadian Apparel Federation members with insured sales of less than $5 million and at least two years of business experience
- Coverage for up to 90 per cent of your loss on export sales if your customer defaults or goes bankrupt without paying
- Ability to use insured export receivables as collateral to get additional financing from your bank

Designer strategies

At the same time, suggests Joshi, the new trade regime can reward new strategies. "If you used to make clothing in Canada, but now it's cheaper to make it somewhere else, take your expertise there. Partner with somebody and open a factory. Or consider the emerging middle-class markets in China and India. They find Western merchandise very attractive, and you still have your supply chain and distribution network. Why not turn things around and export back to them?"

In the U.S. market, too, we have at least one advantage over China and India – we're a lot closer. We could use that proximity to service U.S. customers in ways that those countries can't match, developing fast and flexible supply chains that will help cancel out their cost advantages.

But ultimately, in the post-quota world, the need to export is almost a given. And why not, since there's so much opportunity in it? "All markets are open to Canadian products," says Joshi, "so there's every reason to start exporting. And if you don't know the company you're exporting to, EDC can protect you through the group policy it uses to assist smaller CAF members. It's specifically targeted for companies with sales of less than $5 million."

So what should a Canadian apparel manufacturer be doing to prosper in this new environment? For this, we'll leave the last word to Elliot Lifson: "Find a niche market, be fashion-conscious, be innovative, produce what the customer wants, and service that customer. Give them the best price-value relationship for your product, and you won't go far wrong."

Our experts

For this article, we consulted four experts with long experience in the Canadian apparel sector. They are:

Viren Joshi, CFA
Senior Underwriter
Export Development Canada
(613) 598-2980
vjoshi@edc.ca, www.edc.ca

Bob Kirke
Executive Director
Canadian Apparel Federation
(613) 231-3220
bkirke@apparel.ca, www.apparel.ca

Elliot Lifson
President
Canadian Apparel Federation
Vice-Chairman
Peerless Clothing Inc.
(514) 593-9500
elliotl@peerless-clothing.com,
www.peerless-clothing.com

Alvin C. Segal, C.M.
Chairman and CEO
Peerless Clothing Inc.
(514) 593-9500
alvins@peerless-clothing.com,
www.peerless-clothing.com

Ballin: A Step Ahead of the Competition

BY **DAVID MARTINEK**

Last winter, the World Trade Organization (WTO) removed all quotas restricting textile and clothing trade between WTO members – forever changing the industry. This tide of change brought overwhelming challenges for many; but great opportunity for those who had a plan in place.

Ballin is the leading [illegible] and marketer of better men's [illegible] slacks in North America.

Photo: Courtesy of Ballin Inc.

Ballin, designers and manufacturers of men's trousers, has been based in Montreal since 1946, and has seen a tremendous amount of change in the apparel industry over the past couple of decades. It is thriving because it watched the global trends, and built strategies to maintain its competitiveness. Over the past 15 years, Ballin gradually shifted away from a manufacturing strategy to a customer-focused approach.

Recent floods of cheap apparel imports have devastated some companies in the apparel sector, but Ballin continues its international expansion and is firmly established as the leading manufacturer, marketer and distributor of better men's trousers in North America. Joseph Balinsky, who runs the company, says "This didn't just happen overnight. We knew that changes were coming long before any official announcement was made. But instead of accepting defeat, we saw this as another opportunity to determine how we could improve our competitiveness."

Ballin's strategy includes investing in its people, processes and products. It works closely with its customers and suppliers on business ventures around the world to optimize its manufacturing through a globalized production strategy. Ballin's R&D investments allow it to seamlessly blend cutting-edge technological advancements into every product while its "customer-first" approach has merchandising and marketing teams focused on identifying consumer styles and trends.

Balinsky notes that when seeking growth in the U.S. market in the 1990s, "we needed to find a partner that understood the pitfalls and could provide the insight and experience we needed to navigate this potential export minefield. That's when we found EDC." Little more than a decade later, Ballin has many success stories under its belt: agreements with major retail chains in Canada and the United States; established outsourced manufacturing facilities in more than five countries; and a ten-fold increase in revenues.

"EDC's Accounts Receivable Insurance and wealth of regional knowledge proved instrumental to our growth," says Balinsky. "By insuring our export sales with EDC, we were able to have the peace of mind that we were protected against unforeseeable customer payment obstacles. We were also able to ship more product more quickly and provide our customers with flexible payment terms by freeing up our working capital."

Both seasoned and novice exporters can draw a lesson from Ballin's carefully planned approach to managing the unavoidable challenge of a drastic change to its industry. Having a plan is essential, and having the right partner can help you high-step your way to success. ■

COMPANY PROFILE

Company: Ballin Inc.
Business: Manufacturer and marketer of men's trousers
Location: St. Laurent, Quebec
Established: 1946
Employees: approximately 400
Exports: 60%
Export Markets: United States
Contact: www.ballin.com or 514-333-5501

The Andean Community, with its population of 120 million, generates more bilateral trade with Canada than any single country in South America. A free trade group of nations straddling the Andean Mountain chain, the Community consists of Bolivia, Colombia, Ecuador, Peru and Venezuela. Trade between Canada and the Community is on the rise, amounting to more than $3.57 billion in 2004. It's a region of great opportunity for Canadian exporters, but consideration needs be paid to the political and social landscape of each of its member states when companies are looking to achieve business success.

Though linked in a common free trade area, significant disparities within the Andean region are apparent. Prospering Colombia, with its varied industrial base, has avoided many of the economic swings induced by the commodity price fluctuations currently plaguing its neighbours. The Peruvian economy, despite its reliance on the country's mineral wealth to generate revenue, has made significant advances in developing its agricultural export sector and delivering economic reforms to attract outside foreign investment. Venezuela, with noteworthy petroleum reserves, garners substantial export income, but natural resource reliance has distorted the economy and failed to promote efficient capital flow. Bolivia and Ecuador have experienced inconsistent economic growth despite a wealth of highly prized mineral assets.

Rising commodity prices have benefited the region immensely, but barriers to growth remain. Structural issues such as an overreliance on a few key exports, a high level of public subsidization, economic disparity, and the marginalization of a significant segment of the population combine with political uncertainties to hinder faster growth.

This should soon change. Miguel Castilla, Director of Economic Studies for the Corporación Andina de Fomento (CAF), remains optimistic about the region's future growth prospects. "A very favourable external environment, fuelled partly by record global demand and prices, means the fiscal ability of Andean countries to address structural issues is at an all time high."

Structural issues haven't kept business away. As Roman Hruby, Deputy Director of the Andean Region for Foreign Affairs Canada observes, "Canadian exporters and investors have been cautious about doing business in a climate of social and political instability, but Canada's commercial interest in the region remains strong."

David Goldfield, EDC Regional Manager for the Andean and Caribbean Regions echoes the enthusiasm. "EDC is very excited about the Andean Community. We have identified eight sectors of opportunity for Canadian business: oil and gas, mining, water and the environment, infrastructure,

Exporting to the

BY **PETER BRAKE**

power, telecommunications, food products and industrial equipment."

Oil and gas exploration and production are vital to the economies of several Andean nations. The sector has attracted major world players, including newcomers from China who are keen to secure access to supplies of an increasingly scarce resource. Rising copper, iron ore and nickel prices have meant new demand for mining equipment and services. Addressing environmental contamination from these sectors has also expanded the market for environmental assessment expertise and remediation technologies and services.

Growing urbanization of the Andean region has necessitated improvements to infrastructure such as water and waste-water treatment facilities, roads and highways, railways, mass transit and power supply. The ability of Andean governments to live up to promises to invest in these areas is dependent on public consensus, political will, and increasing revenue from a booming export economy.

Investments in telecommunications and information technology and the growth of e-business are helping to diversify Andean economies. In particular, Colombia, Venezuela and Peru have spoken of their commitment to expanding broadband networks in the hope that electronic learning will help to upgrade education and employee training to global standards.

Apart from capital intensive sectors, the consumer market of the Andean Community is expanding as the region's economy grows. Urbanization and exposure to global fashion and lifestyle choices through the Internet have encouraged the adoption of a wider variety of choice. The ability to access these products and services has been enhanced by higher disposable incomes and greater consumer confidence.

The environment for investment and export trade in the Andean region is complex and requires a well thought-out strategy. Decades of resource-based economic development have not benefited much of the population. Poverty levels and income disparities are still high despite the commodity boom and a flow of new capital. Activists have stepped up their demands and are able to extract conditions on new projects, especially ones in ecologically vulnerable areas. Exporters and investors are expected to include social needs and community benefits in their bidding packages. Corporate social responsibility is a necessary element of good trade relations, an element Canadian exporters should promote as an intrinsic advantage when buying Canadian.

Political unrest and social activism in the Andean Community may seem discouraging to some companies, but Canadian experience in implementing sound and socially responsible business practices is a cornerstone of Canadian success in the region.

Andes:

Rising Above the Obstacles

"Canada's reputation as a responsible global citizen and its ability to offer technology and services that equal American quality is a significant marketing tool."

– **Roman Hruby**
Deputy Director of the Andean Region, Foreign Affairs Canada

Venezuela: Riding the Flow of Oil


Photo: © Stock Connection / Alamy

Pipeline and oil tanker docked on the shore of Lake Maracaibo, Zulia State, Venezuela.

Venezuela is home to one of the largest fossil fuel reserves in the world. Sitting on top of proven oil reserves of 78 billion barrels, an estimated 238 billion barrels of non-conventional reserves, and 148 trillion cubic feet of proven natural gas, the country should be one of South America's economic success stories. "Despite its oil riches, Venezuela had, and still has, high levels of poverty, with more than 50 per cent of the population living below the poverty level," according to Roman Hruby, Deputy Director of the Andean Region for Foreign Affairs Canada. "The Government of Venezuela is now using its oil wealth in an effort to address this issue of poverty and related social problems."

In his ongoing attempts to address the country's social issues, Hugo Chávez, President of Venezuela, is calling for nothing less than a revolution of social development funded by oil revenue. Expected to be re-elected in 2006, Chávez has popular support for his agenda of aggressive expansion of social programs and infrastructure development. With the traditional oil and gas sector also requiring massive investment, a resurgent Venezuela may present opportunities for Canadian exporters.

Canada's trade with Venezuela reached $479 million in 2004, consisting mostly of exports of wheat, motor vehicle parts, machinery and wood pulp. Canada should be able to expand its exports of technological products and services and consumer goods as Venezuela's oil-driven economy appears set for a prolonged period of growth. Canadian software exporters should take note that 80 per cent of Venezuela's software imports are purchased by just three Venezuelan sectors: petroleum, financial and telecommunications.

Barbara Tink, International Trade Canada's Trade Commissioner for Columbia and Venezuela, highlights the social investment agenda of Chávez: "A large part of new government oil revenue is earmarked for new social programs such as education, housing and medical services."

After years of neglect, the country's electricity generation and transmission systems are long overdue for an upgrade. More than $19 billion worth of investment is needed to maintain and update existing equipment and develop new projects over the next 10 years. U.S. companies dominate the sector, but Canadian exporters should note Venezuelan interest in diversifying suppliers.

Venezuelan infrastructure investment will also focus on wastewater and solid waste management, which has been mostly delegated to municipal control. The government expects to fund a $6.2 billion program to improve facilities in the waste and wastewater sectors with the aim of extending service to 99 per cent of the population.

In addition, with an aging infrastructure and a mix of old and new wells, Venezuela recognizes that its intent to raise oil production to 5.1 million barrels per day and adopt higher environmental standards is ambitious and costly. Consequently, the government has launched a new round of licensing, planning as much as $154 billion investment in the oil and gas sector through to 2009.

Dominique Bergevin, EDC Political Risk Analyst for South America, cautions, "The investment environment is

uncertain and politicized. Government intervention figures among the principal risks of doing business in Venezuela."

Venezuela has placed a priority on the development of its Orinoco tar oil reserves. Chávez has boasted that Venezuela has more oil than Saudi Arabia if its tar oil reserves are included in its total holdings. Expertise in enhanced oil recovery for marginal fields and the extraction of heavy oil in a profitable and environmentally friendly manner is a distinct Canadian advantage.

David Goldfield, EDC Regional Manager for the Andean and Caribbean Regions, points to an unexploited opportunity for Canadian manufacturers: "Canada has extensive experience in oil and gas exploration and drilling, yet it ranks only 17th among countries exporting such equipment to Venezuela. Canadian companies aiming to market equipment and services to the Venezuelan state oil company, Petróleos de Venezuela S.A. (PDVSA), would be well advised to establish contacts with its purchasing division. Joint ventures or partnerships are an effective and efficient way to gain standing for procurement bids, an increasingly common requirement of many contracts."

"Canada's reputation as a responsible global citizen and its ability to offer technology and services that equal American quality is a significant marketing tool," notes Hruby. "Whatever one may think of his political agenda, Chávez has set admirable goals for eradicating social inequity and overcoming income disparity."

Venezuela has been down the boom and bust road before. Popular dissatisfaction with old models of resource exploitation has enabled Chávez to assume a leadership role in promoting social change. With a cycle of commodity prices once more favouring Venezuela, the nation has a fresh opportunity to make changes that bring lasting benefits.

VENEZUELA ECONOMIC SNAPSHOT

Nominal GDP (2004): USD 109bn

Population (2004): 26.0mn

Total Trade / GDP (2004): 57%

Currency: Bolivar

Exchange regime: Pegged at VEB2150/USD

Merchandise Imports from Canada (2004): CAD 478.8mn

Main sources of Foreign Exchange (excl. FDI): Petroleum

Largest Merchandise Trading Partner: United States

Main imports: Consumer goods, Intermediate goods

Colombia: Building Confidence

Colombia boasts the most diversified and developed economy of all the Andean nations. With GDP growth of 4 per cent achieved in 2004 and forecasts of 3.5 per cent for 2005 and 2006, Colombia is expected to enjoy a robust economic outlook for some years to come. An improving security situation provides an extra boost in confidence. In addition to its sizeable industrial base, Colombia is a major commodity and agricultural exporter, notable for coal, copper, coffee and horticulture.

Canadian exports to Colombia reached $387 million in 2004, making it the third largest export market in South America after Brazil and Venezuela. Sales of wheat, seeds and barley; telecommunication equipment and services; paper products; automobile parts; fertilizers; and copper and aluminium made up the majority of exports.

Colombia's free market economy of 45 million people enjoys strong commercial ties to Canada. Canadian investment is spread across the sectors of telecommunications and energy, agri-food, mineral exploration, pulp and paper, printing, footwear, consulting and education services, plastics and construction. Most Colombian business, except agriculture, is open to foreign investment.

The popular Uribe administration has received strong marks for its fiscal management and encouragement of industry. In 2004, the World Bank recognized Colombia as having made the largest strides in Latin America in simplifying the requirements to start a business. With the security situation improving, President Uribe has pledged his administration will promote the development of the country's infrastructure, where construction and information technology are deemed to be platforms for new growth. Colombia's rate of urbanization is high at 90 per cent, requiring investment in roads, rail, urban transit and waterways. The elimination of the state telecom monopoly has seen private investment rush in to meet the popular appeal of new cellular services.

Confidence is also reflected in a rising Colombian peso and increased consumer spending. Convenience products and frozen foods are two areas where Canadian exports have significant profile. Exporters of consumer goods should take note that accessing the market can often begin in the United States where Miami-based distributors serve as an entry into Colombia. Spanish language standards for labels apply.

Colombia's vast mineral deposits include ferronickel, gold, silver, platinum and emeralds. Global demand for these commodities has put the mining sector in high gear. Environmentally sensitive mining equipment and services, as well as soil and waste remediation expertise, are required to address the higher business and public standards

Photo: © REUTERS/Eliana Aponte

Colombian miners work in an open-sky emerald mine in Muzu, northern Colombia. Colombia is the world's largest producer of emeralds.

called for in Colombia's future resource development.

Although Colombia maintains its position as a net exporter of petroleum, the country's oil reserves have diminished dramatically, from 3.1 billion barrels in 1995 to less than 1.4 billion at the end of 2004. Opportunities exist for Canadian technologies that extend the life of mature oil fields.

"Our strengths as Canadian exporters are that we live in the same hemisphere and time zone, we are linguistically and culturally diverse, we can match or exceed American technological standards, and we are known as good corporate citizens," states Hruby. Goldfield agrees that further effort to underline the Canadian advantage is needed, "We must adapt to a rapidly changing global trade environment. Canadian exporters have to be prepared to get on the ground, get involved locally, and compete head-to-head. Using local business resources and region-specific knowledge to execute marketing strategies is key."

Human rights and security issues, however, are significant considerations in Columbia. The military campaign against the guerrilla movement and the manner in which private business addresses security concerns are constantly monitored by non-governmental organizations for human rights abuse. As Bergevin points out, "Canadian companies can enhance their reputation and respect by ensuring a high standard of ethical business practices."

A ready market exists in Colombia for Canadian products and services. Colombia's new found stability is creating an environment where Canadian exporters can pursue burgeoning opportunities with greater confidence than ever before.

COLOMBIA ECONOMIC SNAPSHOT

Nominal GDP (2004): USD 97.4bn

Population (2004): 45.3mn

Total Trade / GDP: 40%

Currency: Colombian Peso

Exchange regime: Independently Floating

Merchandise Imports from Canada (2004): CAD386.9mn

Main sources of Foreign Exchange (excl. FDI): Petroleum and related products

Largest Merchandise Trading Partner: United States

Main imports: Intermediate goods, Capital Goods

Peru, Bolivia, Ecuador: Stability Key to Future Growth

Peru, Bolivia and Ecuador, once home to the Incan Empire that stretched across the Andes, are showing encouraging signs of economic growth.

"A rare period of favourable trade has seen inflation decrease, budget deficits moderate and economic fundamentals stabilize," says Miguel Castilla, the Director of Economic Studies for the CAF. "Medium-term growth throughout the region is forecast to be positive with projected 2005 rates ranging from a low of 3.6 per cent in Bolivia, 3.7 per cent in Ecuador, to a high of 4.3 per cent in Peru."

"Canadian exporters should note that opportunities for the sale of Canadian products and services in oil and natural gas and mining and infrastructure remains strong even amidst potential political uncertainty," says Goldfield. "Nonetheless, foreign investment is attracted to the region to secure access to strategic resources such as oil and natural gas."

Bergevin adds that, "fractious politics and the resentments of marginalized indigenous groups have come to the forefront in recent years. A more stable operational environment going forward is dependent on improvements on these fronts."

Peru's economic performance has been relatively sound in recent years, much stronger than the regional average. Castilla notes, "Peru emerged from its own brush with unrest and radicalized movements in the 1980s with a stronger consensus regarding liberalized economic principles and dedication to sound financial fundamentals. To date, discord has not weakened commitment to these principles and Peru's economy

has yet to be damaged by a divisive political environment."

Projected economic growth of 5.1 per cent for 2005 and 4.5 per cent for 2006, with benefits from the Camisea gas project, provide momentum. Bidding to construct a liquefied natural gas plant on Peru's coastline that will supply the American market is also expected to proceed despite political turmoil.

PERU ECONOMIC SNAPSHOT
Nominal GDP (2004): USD 68.6bn
Population (2004): 27.5mn
Total Trade / GDP (2004e): 39.5%
Currency: Nuevo Sol
Exchange regime: Dirty Float
Merchandise Imports from Canada (2004): CAD 157.2mn
Main sources of Foreign Exchange (excl. FDI): Gold
Largest Merchandise Trading Partner: United States
Main imports: Intermediate Goods, Capital Goods

Canada's dominant presence in Peru's resource sectors has given Canadian know-how a high profile. The leading role played by Canadian interests in Peru's copper and gold mining demonstrates Canadian expertise and corporate responsibility. A Canadian government Wireless Product and Services Mission to Peru, Ecuador, Venezuela and Colombia in the Fall of 2005 is an example of marketing Canadian technology that matches up with the strategic growth focus of Andean business.

Ecuador's economy had a GDP of $38 billion in 2004, with growth achieving a rate of 6.9 per cent. Currently the country is the fifth-largest producer of crude oil in South America, with proven oil reserves of 4.6 billion barrels. Not surprisingly, the oil industry dominates the economy of Ecuador, providing

Photo: © SCPhotos / Alamy

Oil exploration worker in jungle of Ecuador.

40 per cent of export earnings and one-third of all tax revenues.

"Despite its importance to the Ecuadorian economy, oil production faces political risk impediments," points out Bergevin. "Popular support for new tax regimes, government revision of signed contracts and significant opposition by indigenous groups of oil development are the types of challenges foreign investors are encountering."

A key business strategy consideration is environment issues, a chief concern for activists. Canadian exporters should highlight their commitment to corporate social responsibility, expertise in the environmental sector, and their ability to offer comprehensive solutions tailored to local conditions. Soil remediation technologies are in particular demand to address contamination from 35 years of oil production in Ecuador.

Although relatively small at 13 million people, increasing urbanization of Ecuador's consumer market has brought greater dependence on, and awareness of, convenience food products. Canada currently supplies 21 per cent of Ecuador's frozen vegetable imports and there is opportunity to expand into other frozen segments such as fish and meat products.

A by-product of Ecuador's rapid urbanization is crime, which has generated an increased awareness of personal security and safety. Canada sold $186 million worth of security exports to the market in 2003 and sales could increase due to the unfortunate rise in Ecuador's crime rate.

Financed in part by EDC, the construction and management of Quito's new airport by a consortium led by the Aecon Construction Group and Airport Development Corporation represent a chance to demonstrate Canadian capabilities in complex projects.

ECUADOR ECONOMIC SNAPSHOT
Nominal GDP (2004): USD 30.3bn
Population (2004): 13.0mn
Total Trade / GDP (2004): 60%
Currency: US Dollar
Exchange regime: Dollarized
Merchandise Imports from Canada (2004): CAD 157.4mn
Main sources of Foreign Exchange (excl. FDI): Petroleum and related products
Largest Merchandise Trading Partner: United States
Main imports: Raw Materials, Capital Goods

Bolivia, one of the poorest countries in South America, saw its economy on the upswing in 2004, with a real GDP growth of 3.6 per cent expected through 2005. Improved fiscal balances should allow Bolivia to acquire sought-after mechanical and construction machinery.

telecommunications equipment and services. As in Ecuador, there is increased consumer demand for convenience and frozen food products.

Like its Andean counterparts, Bolivia's future economic hope rests with its large fossil fuel reserves, the second-largest in South America and estimated to contain 53.3 trillion cubic feet of proven and unproven natural gas reserves. Bolivia has projected the energy and mining sector could see as much as $5 billion in new investment through to 2010.

Development in this industry remains prone to internal dissension, and popular support is growing for the restructuring and re-nationalization of the hydrocarbon industry. According to Bergevin, "The majority of indigenous peoples of Bolivia are seeking more control over resource development. Without structural changes to enable greater inclusiveness, the political environment will remain tense."

The natural riches of the Andes offer Bolivia, Ecuador and Peru the means to gain economic strength. Political unrest and civil activism, however, have brought increased attention to the environment and the countries' social needs, compelling a high standard of corporate social responsibility in future resource development. This can be a Canadian advantage and one that exporters could incorporate into their marketing strategy.

BOLIVIA ECONOMIC SNAPSHOT

Nominal GDP (2004): USD 8.8bn

Population (2004): 9.0mn

Total Trade / GDP (2004): 54.1%

Currency: Boliviano

Exchange regime: Crawling Peg

Merchandise Imports from Canada (2004): CAD 10.9mn

Main sources of Foreign Exchange (excl. FDI): Natural gas

Largest Merchandise Trading Partner: Brazil

Main imports: Raw Materials, Capital Goods

Photo: © REUTERS/Angel Chalco

Ecuadorean demonstrators protest against government policies in Nueva Loja, Ecuador.

The Andean Political Pulse

By Dominique Bergevin, EDC's Political Risk Analyst for South America

Although each Andean country boasts a distinct political environment, common traits among nations undeniably link and render them vulnerable to contagion. Over the past 20 years, Andean governments implemented neo-liberal policies motivated by economic necessity or a sincere belief in their benefits. Regardless of motivation, the results were similar with increased foreign investment attracted to the region's rich resource base and economic opportunities.

Although this policy course reaped sizeable economic benefits, it did not necessarily improve the quality of life of the populace. The distribution of wealth within the region remains significantly skewed and a large segment of the population is uneducated, destitute and economically disenfranchised. In Bolivia, Ecuador and Peru, this societal divide tends to be along ethnic lines with indigenous communities kept on the margins.

The social environment has given rise to populist politicians who are propelled by constituents seeking a louder political voice, more domestic social investment, and greater returns from foreign investors. Venezuela's Hugo Chávez and his "Bolivarian revolution" are the region's most obvious example of this trend. The uncertain investment environment he has fostered demonstrates the risks posed by radical, populist governments. Noteworthy, Chávez is actively seeking to spread his socialist ideals beyond the Venezuelan border and many within the Andean community are receptive.

As a result of weak political institutions, street protests have surfaced as a powerful tool for the region's marginalized population. Recently, Ecuador and Bolivia endured protracted street protests which led to a change in government. In all Andean countries, demonstrations have the proven ability to shift policy direction.

Colombia is, in many cases, an exception to these trends. Its right-leaning government is extremely popular given its concerted effort to tackle the country's long standing insurgent groups who promote a leftist ideology but are notoriously known as narco-trafficking terrorists. Any measure of success by the Colombian government on this front, however, could have negative implications for its Andean neighbours. The presence of Colombian narco-trafficking terrorists is increasingly being felt throughout the region. Their collaboration with indigenous coca leaf farmers enables both of these actors to further their respective interests while having a destabilizing effect on the state.

Over the course of the next 18 months, each Andean country will face national elections. With the exception of Colombia, many leading presidential contenders are making social commitments at the expense of sound economic reasoning. In this context, foreign investors may be able to mitigate political risks by ensuring that they, too, make meaningful social contributions in their host country and minimize any negative impact of their operations.

Export Development Canada (www.edc.ca)
EDC representative serving the Andean region:
- David Goldfield, Regional Manager: **dgoldfield@edc.ca**

Canada's Trade Commissioner Service
- Colombia: **www.bogota.gc.ca, bgota-td@international.gc.ca**
- Ecuador: **www.quito.gc.ca, quito-td@international.gc.ca**
- Bolivia and Peru: **www.lima.gc.ca, lima.commerce@international.gc.ca**
- Virtual Trade Commissioner: **www.infoexport.gc.ca**

Andean country government websites (Spanish only)
- Bolivia: **www.bolivia.gov.bo**
- Colombia: **www.gobiernoenlinea.gov.co**
- Ecuador: **www.ec-gov.net**
- Peru: **www.seace.gob.pe**
- Venezuela: **www.gobiernoenlinea.gob.ve**

Other sites
- Corporación Andina de Fomento (CAF) **www.caf.com**
- Inter-American Development Bank **www.iadb.org**

Business Opportunities

How do you learn about business opportunities?

EDC and the Government of Canada's Virtual Trade Commissioner's business lead alert service can help Canadian companies become aware of business opportunities. In addition, several organizations like the Inter-American Development Bank and the e-government portals for the individual Andean nations are logical starting points. Andean agencies such as the Corporación Andina de Fomento (CAF), trade groups, and Chambers of Commerce provide information about new and ongoing projects and opportunities. Most of these groups have a presence on the Internet.

Where is the hottest export potential for Canadians?

Within the Andean Community, Venezuela is the largest export market for Canadian goods and services, with total exports in 2004 of $507 million. With oil revenues reaching new highs on surging oil prices, Venezuela's appetite for imports is booming. The current social agenda of Venezuela puts a heavy emphasis on projects such as education, medical services and extending sewage and wastewater treatment facilities. These are areas that Canadian exporters should target for growth.

What are the trade and customs issues?

Canada is in talks with the Andean Community about a free trade agreement, but currently all exports carry tariffs, so check in advance with government authorities on the level of customs duties for particular types of goods. Both Canada's Trade Commissioners Service and law firms active in the region can help identify trade issues that may affect doing business with each Andean market.

Are there cultural differences that companies need to be aware of?

Spanish business culture tends to be somewhat more formal than North American practice. Although many Latin Americans speak English, correspondence should be in Spanish. Labels should be in Spanish as well as English. Punctuality is important in business affairs, but not as important in social events.

Can you do business long-distance or do you need to be on the ground?

On the ground is usually preferable, but if the market is too small to merit the financial commitment of maintaining an office, then the best alternative is to obtain local representation through an agent or distributor. You can get advice and direction about local representation from a variety of sources including local Chambers of Commerce, the Canadian Consulate and Andean Community agencies such as the CAF.

Photo: Courtesy of Empresas CMPC S.A.

CMPC & EDC: Unlimited Growth Potential

Financing agreements involving CMPC, Chile's largest forest-products company, and EDC open doors for Canadian suppliers.

Chile's Empresas CMPC S.A. has embarked on an ambitious USD 1.5 billion capital spending program over four years, to ensure its production capacity keeps pace with the firm's rapid pace of growth.

To help finance the program, CMPC borrowed USD 475 million last year from a syndicate of lenders that included EDC. It was the largest bank-borrowing the company has ever made.

EDC's USD 43.5 million participation in that loan and a more recent USD 12.5 million contribution to a smaller CMPC financing are just the latest chapters in a relationship that stretches back to the late 1980s.

Canadian companies have been large beneficiaries of this long-standing connection – CMPC purchased about USD 100 million from Canadian firms between 1998 and 2004. And since last year's financing, CMPC has already committed to buying goods and services from Canadian suppliers worth more than the value of EDC's loan.

"This is a company that values long-term relationships with its customers, with its banks, with its suppliers," says Cristián Morales, CMPC Vice-President of Finance. "We like to work with partners like EDC. We know them. We trust them."

Morales notes that EDC has successfully adapted to CMPC's growth into a major international company with an investment-grade credit rating and almost USD 2 billion in sales last year.

EDC typically lends money to foreign buyers to facilitate specific, pre-arranged purchases of goods or services from Canadian companies. But a company the size of CMPC doesn't need that kind of financing – it can tap any credit market in the world.

So EDC opted for a proactive strategy aimed at encouraging CMPC to continue to buy Canadian.

"I like to call it developing trade capabilities," said Denis L'Heureux, EDC Financial Services Manager, Advanced Technology and Manufacturing. "We're promoting Canadian capabilities in the pulp and paper sector. We're opening doors for Canadian companies, doing some matchmaking and proactively developing trade."

As a condition for participating in the syndicated loan, EDC and CMPC signed a letter in which CMPC agreed to look for opportunities to use Canadian suppliers and promised to send procurement officials to Canada to meet with potential suppliers.

"The company acknowledged the reasons that we're in the syndication," L'Heureux says. "We're there to develop a relationship with them and they recognize we're there because we want to promote procurement from Canada."

Together, the two sides came up with a list of Canadian companies for CMPC officials to meet during their trip to Canada in March of 2005. The list was a combination of firms the Chilean company wanted to see and those that EDC thought might be a good fit for CMPC's needs.

L'Heureux says EDC has been selectively using this kind of proactive strategy for about five years, typically with large companies with a strong track record of buying Canadian.

"But we don't do it with closed eyes. We have a strong rationale to support our belief that what we're lending to them is ultimately going to be helpful in increasing what they buy from Canada."

In this case, the strategy worked because of the strong bond that had been built between EDC and CMPC since 1989. That was the year that EDC first provided financing to Celulosa del Pacifico, a mill acquired by CMPC in 1998.

"CMPC is one of the most profitable companies in Latin America, so everyone is knocking on its door," says Claudio Escobar, EDC's Brazil-based Regional Director for Brazil and the Southern Cone countries. "We have developed a value-added relationship with this company by being very innovative, not only offering financing, but also providing access to suppliers."

Among other features of the relationship, CMPC appreciates EDC's commitment to sustainable social and environmental development – a value that's important to the Chilean company and its controlling shareholder, the Matte family, says Escobar. "That's their culture, so there's a good fit."

"We like to work with partners like EDC. We know them. We trust them."

Founded in 1920, CMPC now has more than 8,000 workers and industrial operations in Chile, Argentina, Peru and Uruguay. It operates in a full range of forest-products segments including lumber, pulp, paper, boxboard, tissue products, and newsprint.

Last year's syndicated loan was arranged primarily to finance a new pulp production line in Nacimiento, Chile, adjacent to the firm's Santa Fe mill. The new line will have a capacity of 780,000 tonnes per year, at a cost of USD 745 million to build. It's scheduled to come on stream in September 2006.

One Canadian company that has benefited from a long-standing relationship with both CMPC and EDC is Montreal-based Groupe Laperrière & Verreault Inc. (GL&V).

GL&V has recently agreed to supply CMPC with water and wastewater facilities for four mills including the new pulp production line at Nacimiento. The contracts are worth a total of about USD 12 million.

These are just the latest set of deals in a relationship between the two companies that goes back 25 years. Still, Peter Flanagan, Technology Director for the GL&V Dorr-Oliver Eimco Division, says competition is tough among suppliers to the international pulp and paper industry and EDC's involvement with CMPC provides an important boost.

"We appreciate any edge we can get when bidding on these contracts," says Flanagan from his office in Salt Lake City. "Especially on these global pulp and paper jobs; there aren't many North American suppliers left and we certainly appreciate the help."

CMPC's Morales says the solid relationship between Chile and Canada can be built on for the future. Canada was the first industrialized country to sign a free trade agreement with Chile, the undisputed economic star of South America. The trade deal came into force in 1997.

"The Canadian forestry industry is important and Canadians are an easy-going people," says Morales. "That makes it easy to build good, long-term relationships."

SITE SEEING

- CMPC's corporate website **www.cmpc.cl**
- Chile's forest-products industry association: La Corporación Chilena de la Madera **www.corma.cl**
- Chile's largest business association: La Confederación de la Producción y del Comercio **www.cpc.cl/presenta.asp**
- Canada's trade commissioner in Chile email: **santiago.commerce@international.gc.ca** **www.infoexport.gc.ca/cl**

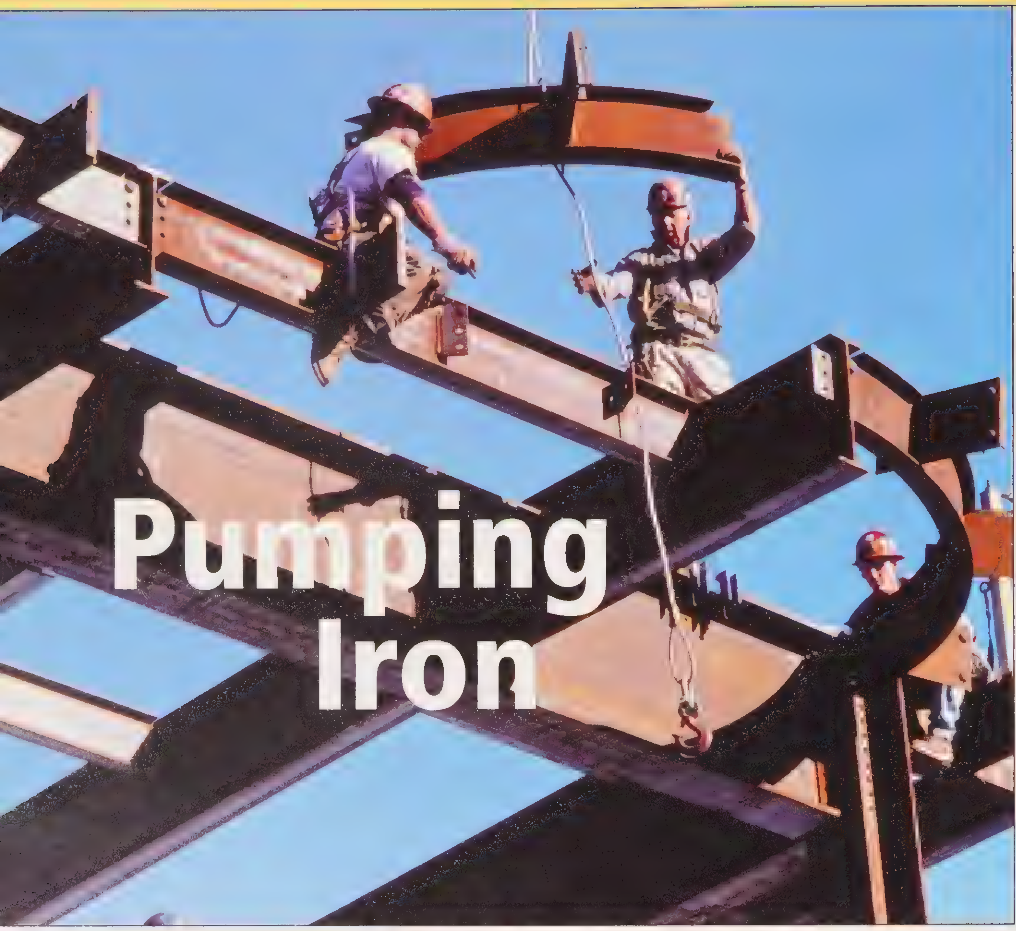


Photo: © Steve Dunwell / Firstlight.ca

Pumping Iron

BY **TOBY HERSCOVITCH**

Samarco, a major iron ore producer in Brazil, is expanding. Canadian suppliers can help.

Samarco, one of the largest exporters of iron ore pellets in the world, is ready to pump out more iron than ever with a USD 1 billion expansion in the next three years. Samarco is owned by mining giants CVRD of Brazil and British/Australian BHP Billiton.

"The expansion involves construction of a second iron ore beneficiation plant, a second pipeline, and a third pellet plant," says Samarco President and CEO José Tadeu de Moraes. Samarco transports the iron ore slurry via pipeline, over a distance of 400 kms. from its inland ore extraction operation to its coastal pelletizing plant.

Steel demand from China jumped nine per cent last year, much to Samarco's benefit. "In 1998, we were the first Brazilian company to export iron ore pellets to China and now the Chinese market represents about a third of our sales," notes Moraes. By the late 1990s, Samarco had expanded its pellet production to 12 million tonnes per year, more than double its start-up capacity in 1977.

In line with this growth, Samarco purchased pellet cars and conveyor mechanisms from a Canadian supplier, Svedala Industries Canada (now Metso Minerals Canada Inc.). "EDC was able to facilitate the transaction by lending money to Samarco on behalf of its Canadian client," says Claudio Escobar, EDC Regional Director for Brazil and the Southern Cone. The loan has recently been paid off, just in time for the new expansion phase.

"We are in the process of purchasing equipment and services, so we will be considering suppliers of engineering services, pipeline and ventilation systems, new mining technology, and more," says Moraes, "and we would welcome inquiries from Canadian companies."

> *"We would welcome inquiries from Canadian companies."*

Today, Samarco exports its entire production to four continents. Pellet sales in 2004 exceeded 14 million tonnes, leading to record financial results. This year, sales revenues are expected to jump again, from USD 641 million to more than USD 1 billion. "Our company has always been profitable and has been uninterruptedly paying its shareholders rewarding annual dividends," says Moraes. Production capacity will climb to more than 21 million tonnes when the new plant is operating.

Moraes is just as proud of the company's record on sustainable development. "We were recently the first Brazilian mining company to receive ISO 14001 certification for environmental controls related to our hydro power plants. We also make continuous investments in social, environmental and cultural programs in the states where we operate."

For potential suppliers to the mining industry, Samarco is a major player in a booming market.

For more information about supply opportunities to Samarco, contact Estevao Braga at estevao@samarco.com, or Fernanda de A Custodio at the EDC office in Rio de Janeiro, at fcustodio@edc.ca. For general information, visit www.samarco.com.

EDC at Large

Recent announcements from EDC and the Government of Canada.

EDC provides domestic insurance coverage

EDC and Coface, the Canadian arm of a worldwide business-to-business trade facilitator, Compagnie Française d'Assurance pour le Commerce Extérieur SA, have combined forces to enable Canadian exporters who receive insurance cover for their export receivables from EDC to obtain cover for their domestic receivables from Coface. Coface has a long history of underwriting trade risk in Canada. Under this one-stop-shopping approach, exporters are now able to access the insurance tools they may need in order to be successful on the international stage. **www.edc.ca/mediaroom**

Making bonding easier with Account PSG

EDC's Performance Security Guarantee product has been enhanced with the Account PSG, as part of a move from individual transaction underwriting toward relationship underwriting within EDC's Contract Insurance and Bonding (CIB) program. With an Account PSG, underwriters analyze the customer's financial and technical risks up-front. No longer will eligible exporters and their banks be required to submit an application, financial statements, contracts and other financial and technical information every time they need to issue a letter of guarantee. A pre-committed "bonding line" for each eligible exporter will be put in place for a year, and individual bank instrument coverage will now take a matter of hours with little administration on the part of the exporter, their bank, or EDC. Canadian exporters issuing six or more export letters of guarantee yearly, who are financially and technically sound, and who have straightforward contracts and bank instruments, are good candidates for the Account PSG. **1-888-336-4143**

The state of financing for Canadian SMEs

Industry Canada recently released a new on-line report on the state of financing for Canadian SMEs. Entitled *Key Small Business Financing Statistics*, this reference document is part of a series of research products prepared through the Small- and Medium-sized Enterprise Financing Data Initiative (SME FDI). This first version includes information on a broad range of financing instruments such as debt, leasing, equity financing, and venture capital, among others, used by SMEs. **www.strategis.gc.ca/sbfstatistics**

Trade training for exporters

Founded in 1992, the Forum for International Trade Training (FITT) is a non-profit organization committed to developing the skills and knowledge of Canadian professionals in pursuit of international trade. FITT's online and classroom courses cover a wide variety of practical subjects including trade financing, logistics, market entry and distribution, and the legal aspects of international trade. Through their C.I.T.P. (Certified International Trade Professional) designation, Canadian exporters gain expertise and competencies to help them realize competitive advantages in foreign markets. FITT is recognized and supported by EDC, ScotiaBank, Team Canada Inc and other trade partners. **www.fitt.ca**, 1-800-561-FITT (3488).

EDC scholarships open doors to a future in international business

Canadian university students can apply for an EDC International Studies Scholarship to receive a scholarship award of $3,000 to support university studies related to international trade, offered through EDC's Education and Youth Employment Strategy. For application forms and a description of criteria, visit **www.edc.ca/youth**.

Are North American companies prepared to compete globally?

Find out at the "Made in Canada: Canadian Vision – Global Excellence" conference offered by the Canadian Manufacturers and Exporters from October 30 – November 1 at the Sheraton Centre, Toronto. Sponsored in part by EDC, the conference features a Global Business Reception bringing together the consuls and senior trade officers from Canada's leading export markets and visiting foreign trade delegations with manufacturers (exporters and importers), distributors and service providers from across Canada. Keynote speakers during the conference include Hon. Frank McKenna, Canadian Ambassador to the United States; Hon. John Manley, former Deputy Prime Minister; Hon. David Emerson, Minister for Industry; Kenneth Courtis, Vice-Chairman, Golden Sachs for Asia; Edward Greenspan, L QC Barrister & Solicitor; and Michael "Pinball" Clemons, Head Coach, Toronto Argonauts. To view the conference program and register visit **www.cme-mec.ca**. ■

Photo: Courtesy of Solmax International Inc.

Solmax manufactures synthetic materials used for containment in earthwork structures.

Exporting Success Stories Recognized at Quebec Award Ceremony

The stories of three EDC customers in Quebec, recently honoured for their exporting excellence, show there's more than one road to success in foreign markets.

This trio of companies on Montreal's south shore operate in very different industries and each have taken a different approach to exporting.

But their corporate histories do share a couple of common threads. All three focus on customer service and all are constantly on the lookout for new markets for their products.

Solmax International Inc., TelcoBridges Inc. and Bélanger Laminates VT Industries Inc. were finalists for the *Prix Excellence Marchés extérieurs* at this year's Gala Dominique-Rollin. The gala is presented by the *Chambre de commerce et d'industrie de la Rive-Sud.* This exporting excellence award is sponsored by EDC, and this year's winner is Solmax International Inc.

Solmax is a manufacturer of tough synthetic materials used for containment in various earthwork structures, such as landfills, irrigation systems and industrial reservoirs. At its plant in Varennes, the company produces polyethylene and PVC geomembrane, plastic materials prized for their high resistance to a wide range of contaminants.

Solmax has been generating strong growth. In particular, it's been benefitting from bouyant conditions in the mining industry thanks to high resource prices. And it's seeing tremendous opportunities in supplying product for landfills in Asia. In China alone, the central authorities have called for the 150 largest cities to create modern landfill sites over the next five years.

"They have enormous needs in China and we're attacking that market," says Jacques Côté, Solmax President and Founder. "Demand in the Asian market will be stable whereas the mining market tends to be more cyclical."

Solmax started as an installer of polyethlene liners in Canada before beginning to export its services in 1989, primarily to the United States. Later, it developed business in France, other European countries, and Latin America.

With the opening of its manufacturing facility in 1997, it progressively moved away from installation to focus on manufacturing and exporting material to installers.

In May 2004, the company added a second production line at its plant, doubling its annual output. That line is already at full production and the company is currently looking at adding more capacity.

TelcoBridges designs, manufactures and markets high-performance technology platforms for use in telephone systems. They represent a significant step forward in terms of performance, quality, scalability and affordability, said TelcoBridges President Gaetan Campeau.

One of the key features of the company's products is that they are designed to bridge between legacy telephone systems and new Voice-over-Internet-Protocol (VoIP) technology.

The Boucherville company was founded in 2002 by a group of telecommunications engineers and one marketing and salesperson who had all previously worked together at another telecom company. The following year, they set about marketing their products to Asian telecommunications system integrators and original equipment manufacturers – with great success, as it turns out.

"As a new company, it can be more challenging to break into established markets such as North America and Europe," Campeau says. "So we went to Asia. These are the new emerging markets and we talked to people in the business and asked them: 'What do you need?'"

"They said they wanted high quality but cost-effective products. Our engineers said "we can build you a carrier-grade system, but on a blade." And the products have done well because this is a

> "They have enormous needs in China and we're attacking that market."
>
> – **Jacques Côté**
> President and Founder, Solmax International Inc.

techologically advanced, flexible, easily maintained system."

With its success in Asia, TelcoBridges became profitable at the end of 2004 and now has 35 employees, up from seven in 2002. This year, it has begun selling in the European and North American markets, followed by Latin America.

Bélanger Laminates is a major Boucherville manufacturer of countertops, cabinet doors and decorative shelves. Founded in 1965, sales have doubled over the past five years and the company now employs more than 200 people.

After building its Canadian business, the company began exporting to the northeastern United States about 10 years ago. The firm sells to big-box retailers, cabinet manufacturers and counter-top fabricators. It has succeeded in developing markets for its door products all the way down the eastern seaboard to Florida, and is now looking to expand markets for all its products in other U.S. regions and other countries.

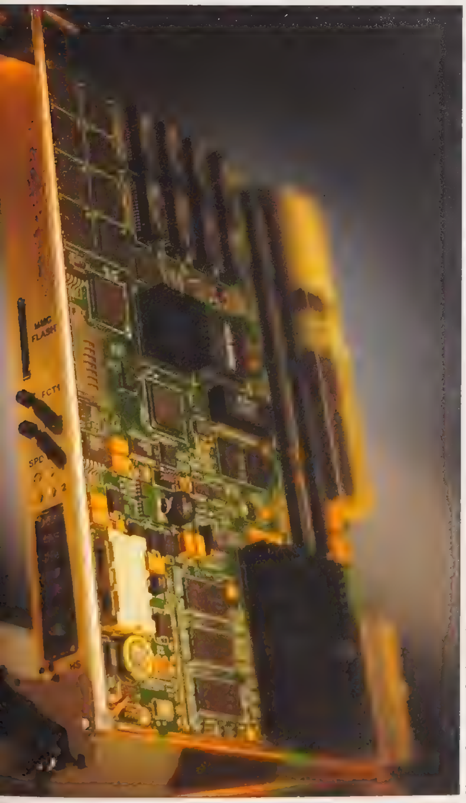


Photo: Courtesy of TelcoBridges Inc.

TelcoBridges' telephone blade products integrate TDM and VoIP capabilities.

President Dennis Ravary said the firm, which is owned by Iowa-based VT Industries Inc., relies on innovative customer service, product development and marketing to maintain and build its position in the U.S. market.

"We're constantly developing new products and marketing tools such as pamphlets and displays," he says. "Our plan is very simple: to open up new markets and keep coming out with new products to create demand."

EDC works with each of the companies honoured in this year's award competition. "Congratulations to Solmax, TelcoBridges and Bélanger Laminates – three great examples of the many innovative Quebec exporters that are succeeding in international markets," says Françoise Faverjon-Fortin, EDC's Vice-President for the Quebec region.

Both Ravary and Côté mentioned early difficulties in collecting receivables, and noted they've used EDC to insure their foreign accounts receivable since the mid-1990s.

"When you're starting out, you send $100,000 worth of product on a handshake and the cheque never arrives," says Côté. "But we learned our lesson and today all our accounts are insured with EDC. We don't have any more bad debts."

TelcoBridges is a client of EDC's Master Accounts Receivable Guarantee, a product that uses the security of a firm's foreign accounts receivable, and an EDC guarantee, to increase operating lines of credit. The company is also

Photo: Courtesy of Bélanger Laminates VT Industries Inc.

Bélanger Laminates VT Industries manufactures countertops, cabinet doors and decorative shelves.

looking at EDC's Pre-shipment Financing products.

With 1,750 members, the *Chambre de commerce et d'industrie de la Rive-Sud* is the region's largest business network. It offers numerous activities and services to its members, including organizing social events, networking opportunities and, for exporters, a service to attest to the veracity of certificates of origin.

"We are honoured to be the recipient of this year's *Prix Excellence Marchés extérieurs*," Côté said. "Membership in the Chambre de commerce is a good way for our business and staff to become known in the community."

FOR FURTHER INFORMATION ON SUBJECTS IN THIS ARTICLE:

Solmax International Inc.: **www.solmax.com**

TelcoBridges Inc.: **www.telcobridges.com**

Bélanger Laminates VT Industries Inc.: **www.belanger-laminates.com**

Chambre de commerce et d'industrie de la Rive-Sud: **www.ccirs.qc.ca**

EDC Montreal office: **514-908-9200**

EDC Quebec City office: **418-266-6130**

EDC products and services: **www.risk.edc.ca**

Deficit Twins
not so Terrible

BY **STEPHEN S. POLOZ**

America's fiscal and trade deficits are frequently cited as the most pressing macroeconomic issues facing the world economy today. Fortunately, neither is as dangerous as the alarmists make out.


Photo: © Martin Lipman

The world economy is in the best shape since the mid-1990s, yet many are still worried. The biggest reason? The dreaded twin deficits in the United States – fiscal and trade.

The facts speak for themselves. The fiscal deficit was $412 billion in fiscal 2004, and was forecast by the president early in 2005 at just under $400 billion for 2005. In subsequent years, the deficit was forecast to shrink only modestly, to around $250 billion. Increased military and security spending are reinforcing the perception that the government's finances are a mess.

Meanwhile, the U.S. trade deficit is running at just under $700 billion. What this means is that America is consuming more than it is producing, and is borrowing vast sums from the rest of the world to pay for the excess. The imbalance is fostering a resurgence of protectionist sentiment in the United States, particularly in Washington.

The two deficits are sometimes referred to as twins, and it is not just because they happen to have emerged at the same time. Take an economy that is at full employment and in full balance, and assume that the government introduces a large tax cut, thereby creating a fiscal deficit. Economic theory suggests that the resultant increase in consumer spending will spill outside the fully employed economy, increasing imports and leading to a trade deficit. This does not mean that the two deficits are always twins, just that it is theoretically possible.

Whether they are twins or not, these imbalances have raised fears of a bond market crunch, in which global investors would suddenly balk at lending to the U.S. government, interest rates on U.S. bonds would rise, the U.S. dollar would fall and the entire world would suffer. But the good news is that these risks may be abating on both fronts.

Increased military and security spending are reinforcing the perception that the government's finances are a mess.

On the fiscal front, the latest analysis by the Congressional Budget Office shows that productivity-driven economic growth and strong corporate profits have pushed fiscal revenues up by 14.6 per cent in the first nine months of the 2005 fiscal year. Meanwhile, government spending is up by 7.4 per cent, about half as much as revenues. The result? The deficit for fiscal 2005 could turn out to be less than $350 billion, or close to 15 per cent lower than originally forecast – a much better baseline for the next five to 10 years, at least.

As for the trade front, the deficit has not widened in recent months, despite higher prices for imported oil. Removing petroleum from the figures yields import growth of about 9 per cent, noticeably less than export growth at 10.5 per cent. With U.S. growth moderating, and the developing world in good shape, this trend is likely to continue, and lower oil prices would reinforce it. Moreover, much of the U.S. trade deficit reflects trade within multinational companies anyway – which means that it is mostly unrelated to the fiscal deficit, and is being financed internally by companies, not by skittish foreign investors.

The bottom line? The twin U.S. deficits will not go away tomorrow. There are longer-term issues with the budget that remain to be resolved, and a lot of the trade deficit is the result of the globalization of U.S. companies, which will continue importing from themselves. But both deficits appear to be narrowing, instead of widening, which is probably all that financial markets will need to remain calm. ■

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate
Communications & External Relations
rboyle@edc.ca

Editor
Michael Toope
mtoope@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative
Insight Communications

Translation
Jean Beaudin, Joanne Durocher,
Manon Lahaie, Josée Lamirande,
under the direction of Maguy Robert,
Anne Tanguay

Contributors
Dominique Bergevin, Peter Brake,
Terri-Sue Buchanan, Deborah Chapman,
Toby Herscovitch, Dennis Jones, Sandi
Jones, David Martinek, Stephen Poloz,
Alex Reeves, Rob Wright

EDC Advisory Board
Mark Bolger, Rosemarie Boyle,
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Linda Graupner, Walt Hutchings,
Alison Lawford, Diana MacGibbon

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EDC is a Crown corporation that
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management services to Canadian
exporters and investors in up to
200 markets worldwide.

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Canada EDC

Send us your feedback!

EDC publishes *ExportWise* to support Canadian exporters in their efforts to succeed in international markets, and to encourage more Canadian companies to export by providing insight on how and where to export, and how EDC can help. This past summer, we checked in with some of you during focus groups on *ExportWise* to see if the magazine is as useful to you as it could be. We received lots of compliments – thanks! – and many great suggestions for improvement we will implement over the next several editions. We would love to hear from more of you about what you want to read about in your magazine. Send me a note at **mtoope@edc.ca**.

Michael Toope
Editor

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

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Are you sure your foreign buyer will pay?

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EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Head Office
Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
website: www.edc.ca

Western

contactwest@edc.ca

Linda Niro
Regional Vice-President

Vancouver Office
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton Office
Tel.: (780) 702-5233
Fax: (780) 702-5235

Calgary Office
Tel.: (403) 537-9800
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Winnipeg Office
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario

contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto Office
Tel.: (416) 640-7600
Fax: (416) 862-1267

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

London Office
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa Office
Tel.: (613) 597-8523
Fax: (613) 598-3811

Quebec

contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal Office
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City Office
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic

contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax Office
Tel.: (902) 442-5205
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Moncton Office
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's Office
Tel.: (709) 772-8808
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Mexico & Central America

Mexico City
Doug Fortney
Chief Representative
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Chief Representative & Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

Central Europe

Warsaw (Poland)
Marzena Koczut
Chief Representative
Tel.: (011) 4822-584-3240
Email: mkoczut@edc.ca

Greater China

Beijing
Winston Kan
Chief Representative
Tel.: (011) 8610-6532-3536 ext. 3357
Email: wkan@edc.ca

Southeast Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Chief Representative
Tel.: (011) 603-2718-3366
Email: rsimmons@edc.ca

India

New Delhi
Peter Nesbitt
Chief Representative
Tel.: (011) 91-11-5178-2000
Email: pnesbitt@edc.ca

Companies with annual export sales of up to $1 million can call our team of small business specialists at **1-888-332-9398.**

Companies with annual export sales of more than $1 million can call the nearest regional office at **1-888-332-3777.**


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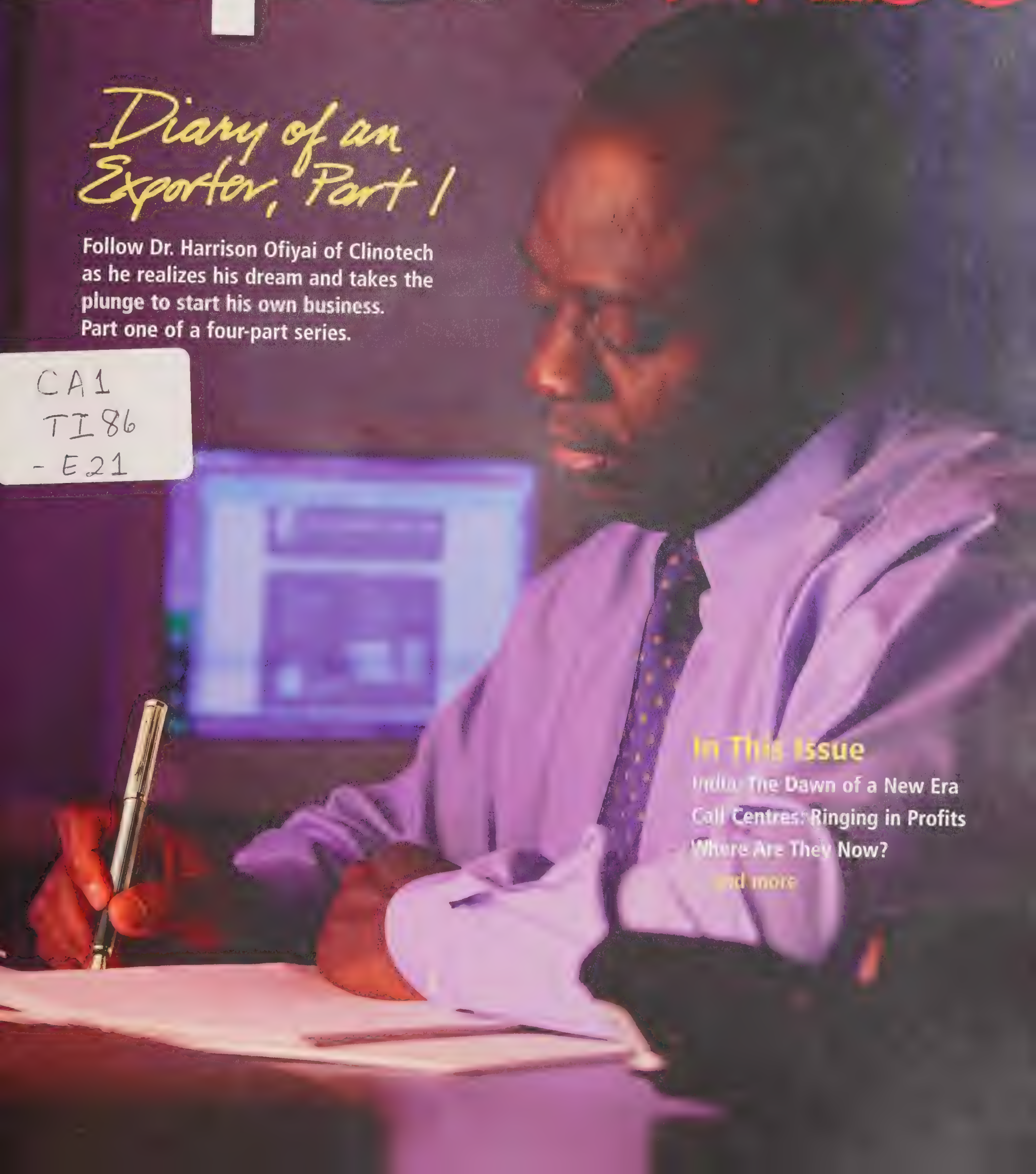
ExportWise

Winter 2005



Diary of an Exporter, Part 1

Follow Dr. Harrison Ofiyai of Clinotech as he realizes his dream and takes the plunge to start his own business. Part one of a four-part series.

In This Issue

Adding Up the Benefits

One of EDC's challenges is to keep pace with our customers' innovations as they build global supply chains, taking advantage of international trade agreements and cross-border partnerships as they seek their niche within an increasingly open and competitive global market place. We exist to support Canada's international trade and as the means by which it is conducted evolves, we must adapt our policies as we have now done with our Canadian benefits assessment.

Photo: © Martin Lipman

Gilles Ross, Acting President

Exports and foreign investments bring enormous benefit to Canada, most obviously by contributing 30 per cent of our Gross Domestic Product (GDP) and hundreds of thousands of jobs. Many of our readers know that EDC assesses these and other benefits to Canada when we look at export deals that Canadian companies ask us to support. I am pleased to introduce you to changes in the way we define benefits, changes made necessary by the shifting nature of Canadian exports and foreign investments, and the evolving needs of our customers.

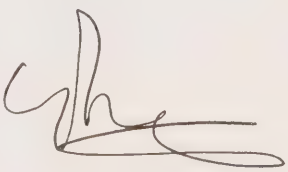
Our new Canadian benefit process, which builds upon our traditional Canadian content approach, provides us with more flexibility to quickly respond to your export finance and insurance needs. Additional benefits now included in the assessment process are research and development undertaken in Canada, the opening of new higher risk markets for Canadian exporting companies and the expansion of financial capacity for small companies that may be underserved by private financial institutions. In effect, we have broadened the definition of a Canadian benefit to reflect the new ways that Canadian companies are conducting international trade.

In effect, we have broadened the definition of a Canadian benefit to reflect the new ways that Canadian companies are conducting international trade.

These additional benefits are particularly relevant as Canada's international trade shifts away from a one-way exchange of hard goods with a high domestic content. Canadian companies are increasingly investing in overseas operations to build global supply chains, capturing labour and material efficiencies by sourcing components of an end-product from the most advantageous locations in other countries. Semi-finished products cross multiple borders until the final production process is completed efficiently and economically. In this fashion, global supply chains blur the line between imports and exports, but that is often what it takes to be competitive in a globalized world. EDC has to fit within this model to fulfill its mandate of support for Canadian businesses seeking prosperity in the global marketplace.

We are confident that our new Canadian benefits process captures the benefits of traditional exports as well as those derived from investments in integrated global supply chains. The bottom line is that we will be able to support more Canadian business in more international markets. We look forward to implementing this new process throughout 2005, so that we may all reap the 'benefits.'

Sincerely,



Gilles Ross
Acting President

ExportWise

Winter 2005

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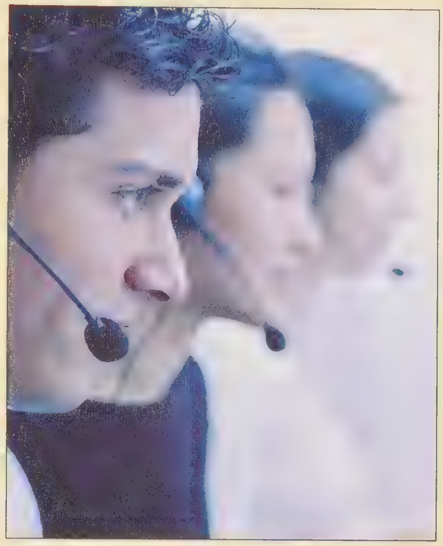

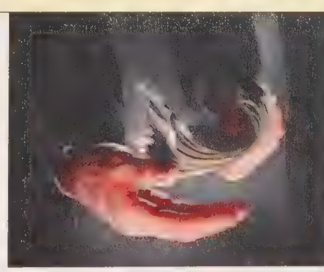

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Cover: Dr. Harrison Ofiyai of Clinotech. Photo: © Martin Lipman

ACP Marketing Canada: Right on Track

BY **TRISH EDWARDS**

For British and many European railways, ACP Marketing Canada Inc. is the answer to securing a tourist's commitment to travel by rail, by making it a highly visible and practical option.

Photo: Courtesy of ACP Marketing Canada Inc.

ACP has positioned itself as the international marketing and sales arm of an impressive number of European railway companies, often an overlooked part of their business, says Denis Grenier, Vice-President of Business Development. "We've developed a business model to provide international turn-key solutions: everything from marketing to sales, to distribution and payment collection. This helps our customers grow their market share while avoiding additional overhead costs."

In the early 1990s, ACP's founder and President, Alex Popescu, was contracted by BritRail to review its international marketing function. He concluded that BritRail needed to increase its presence and identified North America as a prime market, encouraging the railway to increase local sales representation, open a call centre and boost product distribution.

Another strategy was to enable travel agents to book BritRail alongside air travel, using the same screens, terminal commands, tickets and back office tools on the airlines' Global Distribution Systems (GDS).

One good idea led to another, prompting ACP to form two subsidiaries, ACP Marketing USA and ACP Marketing UK, and to gain controlling interest in another two companies, AccesRail, which provides rail ticket distribution through the GDS, and ACP Secret Holidays, a rail-based tour operator.

"EDC supported ACP through this growth, particularly with respect to the steep bank guarantees required when bidding internationally," says Grenier. "In the early days, these guarantees were not readily accessible to smaller companies. EDC took us seriously, taking a leap of faith on a company with no experience operating on that scale."

What kind of challenges has ACP faced? As a global retail operation, one hurdle was finding an efficient way to collect payment in different currencies from different sources and to accept credit cards issued in various countries. Grenier adds, "Some 50 or so bank accounts later, I still don't know that we've come up with a perfect solution."

Grenier advises that retail companies looking to export should never underestimate the time needed to establish operations in a different market. "Many estimate two to four months, but in reality, it'll take you six to eight, or more. When dealing with businesses such as the railways, sometimes government-run or with long histories, plans can move very slowly or sometimes not at all. Understand that some contracts may never materialize, and manage your company prudently."

Technology is also serving up more options to the traveling public, he adds, where anyone can start a web site and take a piece of the pie with minimal overhead. The answer is to continually improve productivity, be prepared and be creative.

"In today's reality, you never know when the next event – war in Iraq, SARS or 9/11 – is going to affect the global business world. Stay close to your market, be aware of what people are willing to pay and make sure your products are dynamic and changeable. Stay on your toes – that's the name of the game."

Clearly, ACP has taken its own advice. ■

COMPANY PROFILE

Company: ACP Marketing Canada Inc.
Business: Worldwide distributor of BritRail; distributor of rail passes for leading European railways
Location: Mont-Royal, Quebec
Established: 1984
Employees: 66
Exports: 95%
Export Markets: Austria, Britain, Greece, Norway, Sweden
Contact: www.acpmarketing.net

Diary of an Exporter, Part 1

Clinotech Diagnoses the Market

BY **DENNIS** AND **SANDI JONES**

Diary of an Exporter chronicles the export journey of Dr. Harrison Ofiyai, founder of Clinotech Diagnostics and Pharmaceuticals. In this four-part series, Dr. Ofiyai shares his experiences with us – both the failures and triumphs in his export odyssey. This first installment details the company's founding and its early growth, from an initial dream to the development of an export product and distribution channels.

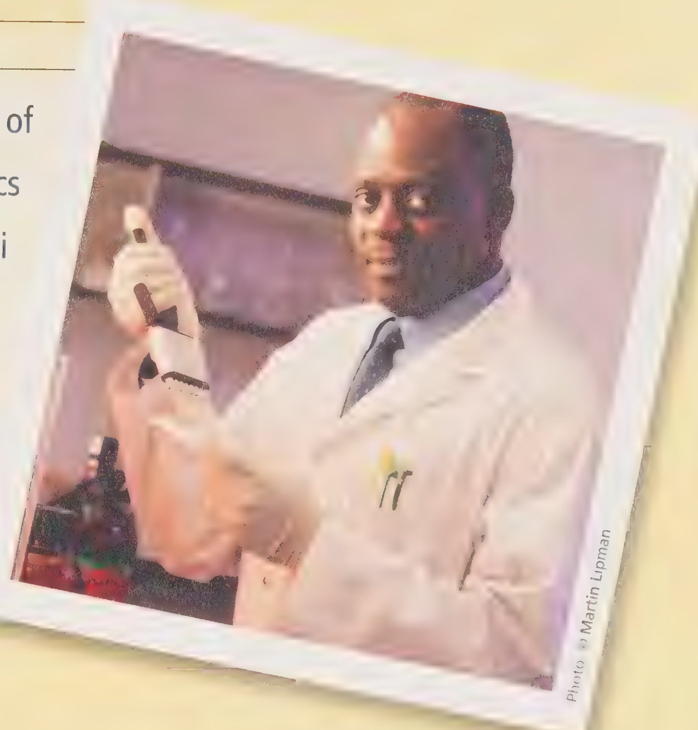


Photo © Martin Lipman

The entrepreneurial bug

After spending several years abroad as a physician for Doctors Without Borders, Dr. Harrison Ofiyai returned to Canada and took a position as a researcher and clinician at the University of British Columbia. But by 1997 his entrepreneurial instincts had surfaced and, with the support of his chemical-engineer wife Senay Ofiyai, he started his own business, Clinotech Diagnostics and Pharmaceuticals.

Once underway, he and Clinotech never looked back, and now the company produces top-quality medical diagnostic products and distributes them to hospitals, medical laboratories and pharmaceutical companies around the world.

Clinotech's story is a notable example of how vision, tenacity, systematic planning and entrepreneurship can lead to export success even in the most competitive overseas markets – *without* extensive financial and marketing support, and even without prior exporting experience.

Starting from scratch

During Clinotech's start-up period, Dr. Ofiyai and his wife paid the company's way out of their own pockets – no lenders became involved until much later, when the business was firmly established. Turkey was chosen as the first target market because Dr. Ofiyai had been posted there as a member of Doctors Without Borders, and had experience and contacts in the Turkish medical system. Building on this foundation, and acting as his own one-man, on-the-ground marketing team, he visited the country five times during Clinotech's first year of business and soon established a viable customer base.

Back in Canada, his knowledge of the Canadian medical supplies industry, gained during his research at the University of British Columbia, stood him in good stead when he was choosing a manufacturer for his product line (Clinotech now has its own manufacturing plant, but that's a later chapter in the story).

A key factor in the company's success has been its tight focus on tools and products for the early detection, monitoring and treatment of human diseases. Among these are boxed kits that contain chemicals and indicator strips for diagnosing diseases such as hepatitis, STDs, tropical illnesses and tuberculosis; other kits provide evidence of pregnancy, cardiac conditions and drug abuse. Urinalysis products include chemical strip tests and an electronic urine analyzer. The company also exports enzyme immunoassay kit components and Enzyme-linked Immunosorbent Assay (ELISA) processors – automated electronic devices used in medical laboratories to detect and measure human antigens and antibodies.

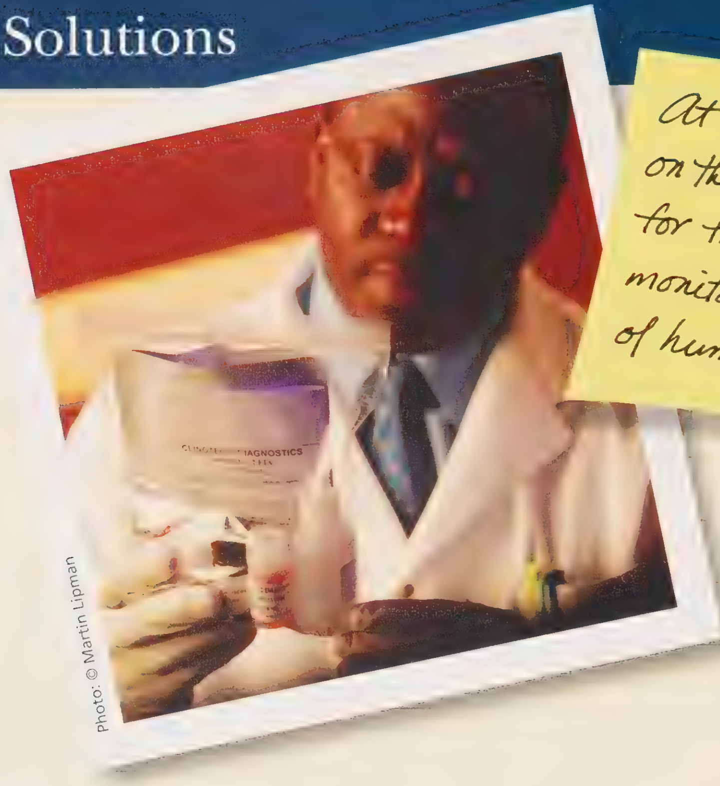


Photo: © Martin Lipman

At Clinotech we focus on the tools and products for the early detection, monitoring and treatment of human disease.

October 1997

I keep thinking about my business idea. The research and clinical work at the university keeps me occupied, but I feel I should consider other options – like starting my own company. After all, I've seen a need everywhere for one-step medical diagnostic devices, and I'm familiar with a lot of them – diagnostics for blood chemistry, urinalysis, HIV, hepatitis, tumour markers, fertility, just to start with. A business in diagnostic kits would fit with the experimental and investigative medicine I'm interested in, and it would go well with my clinical background.

I've never been a businessperson, though, and finding the right market might be difficult. But when I was doing field work for Doctors Without Borders, I saw how badly the developing countries need better diagnostic services. A Canadian business exporting these kits could help them. I've already thought of a name – Clinotech Diagnostics and Pharmaceuticals.

One big requirement: I'd want to sell under the Clinotech brand, so I'd need a manufacturer who won't insist on putting its name on the kit. It may take some looking, but I'm prepared to hold out till I find the right company.

November 1997

Still thinking. As well as my overseas field work, I've got another important advantage if I try exporting – my experience at the university hospital in Turkey. I had a lot of colleagues in the medical profession there, and I got to know some business people, too. They might help me find Turkish distributors for the diagnostic kits. That's a key factor, because the hospitals' purchasing directors all have relationships with the Turkish medical distributors, and they wouldn't want to deal directly with a foreign supplier. So Clinotech would have to work through distributors. But I'd have to make sure that the ones we pick have plenty of sub-distributors across the country.

It's not something I could do by phone, though. I'd have to go there, find reputable people, talk to them, see if there's a workable opportunity ... I'm looking at a lot of travel expenses.

Early February 1998

Well, I've taken the plunge. Clinotech is a reality and is starting operations. My first market is in Turkey, a strategy that Senay agrees is the right one to follow.

I began by approaching some Turkish distributors and sending sample kits to them. They did some extensive evaluation with the hospitals, and then one of the distributors contacted me. He told me the hospitals had said the products were very good and that they wanted to try them, so now the distributor's interested in doing business with Clinotech. This means I can go ahead and order the kits from the Canadian manufacturer – with Clinotech's brand on them!

Also, I've decided that Clinotech will be self-financing – we won't work on a deferred-payment or open-account basis. In other words, we won't ship to a distributor until we've been paid for the shipment. That way we won't need bank loans to finance our kit production. I know that not offering credit will probably cost us some business and we won't grow as fast. But that doesn't matter. We're going to be very gradual, very systematic, very careful.

Another decision: we're not going to give exclusive distribution rights to any one distributor, not at this time anyway. That might change later, but just now I want to be free to contract with two or three companies if I need to.

Photo: © Jonathan Blair / Corbis / Magma

✓ targeted Turkey as Clinotech's first market because of my experience working there with Doctors Without Borders in the 1980s.

Late February 1998

I'm already really busy and we've hardly started. It's becoming obvious that Clinotech is going to demand most of my time, so I'm taking the biggest step so far: I'm taking an unpaid leave of absence from the university. I have some misgivings, but it's the only way to stay on top of things.

April 1998

I'm winding up my first business trip to Turkey, and what a whirlwind! I've covered Ankara, Izmir and Istanbul since I got here, looking for distributors. Speaking to people on the phone is very different from actually visiting the target market. I've been meeting business people, giving seminars, talking with hospital colleagues and end users.

And checking out the competition, too. Pricing Clinotech's products is tricky because many of the products we're up against come from the Far East, and their prices are very competitive. So I've tried to make it clear to the distributors that I believe in Clinotech's services and products, and that they can too – that we'll provide the best kits at very cost-effective prices, and that they'll always have our after-sales support as well as our clinical and technical support. I tell them they can always reach us, and that we won't just dump the kits on them and walk away. It also helps that Canadian-manufactured medical supplies are high in quality and very reliable.

One other thing – I never talk about dominating the market. Some of the distributors I've spoken with think we should try to do that, but I know that we'd only overextend ourselves and end up with a bad reputation. There's a market for every product, I believe, and Clinotech can be happy to share part of the cake.

My approach seems to be working, too. I think I'll eventually be able to sign up two or three distributors here. I hope so, because this overseas travel is expensive.

August 1998

It's going very well, to my relief. Clinotech now has three distributors in Turkey: one in Ankara, one in Izmir and one in the biggest Turkish market, Istanbul. All have sub-distributors across the country, so our kits are spreading quickly into the state and private hospitals.

I've already been back twice, to give the distributors the after-market support they need. I'll probably go to Turkey at least three more times this year. I want to make sure we're solidly established.

November 1998

The last few months have been hectic. I've been to Turkey about every month and a half, training the distributors' sales staff in the specifics of Clinotech products and how to answer the questions the medical people will have. The after-market support has taken a lot of time, but it's really paying off because the distributors now know we're solidly behind them and that we'll support them when they're selling to the hospitals and the doctors. Just as important, it also lets the hospitals know that Clinotech stands behind the products they're purchasing.

I can't believe it's only a year since I decided to start Clinotech. Not only are we succeeding, we're self-financing. And in a few weeks, we'll be in 1999. I wonder what the new year will bring …

Small Business Perspectives

Know Your Buyers Up Front: Avoid Problems Later

BY **TRISH EDWARDS**

Over the next four issues of *ExportWise*, we'll be exploring some of the unique concerns that face smaller businesses in this special feature called *Small Business Perspectives*. Our first feature deals with the issue of preventing and managing overdue accounts. In future issues we'll look at: extending credit to your buyers, the challenges of exporting to the United States and getting export ready.

Photo: © Melvin Dockrey / Getty Images

Small companies excited about the possibilities of expanding their business overseas are often in a rush to get that first contract nailed down. But the best piece of advice that François Henrie, EDC's Director of Claims and Recoveries, can offer is to get to know your buyer and the country you're shipping to first. "Take the time to do your research up front – it will save you endless headaches down the road," Henrie says.

Counselling is available from a number of sources, such as EDC, Foreign Affairs Canada, International Trade Canada's Trade Commissioner Service and credit bureaus. It's also a good idea to make contact with international trade associations and to attend trade shows in prospective countries.

Learning about the country's business culture is wise as well. Is corruption the norm? Is the economy poor or vigorous? What are the customs regulations? Should you be working with a local representative or a distributor?

Henrie also cautions exporters to examine the judicial systems in potential markets because their legal networks may not be as robust as North America's and may lack the infrastructure to help exporters collect what's owed to them.

Even in the United States, the largest importer of Canadian products and services, there are some states that are considered debtor-friendly, he warns. This makes it easier for the buyer to default on payment, perhaps leaving the exporter with little recourse. "The bulk of Canadian claims actually come from the United States – 50 to 60 per cent of the claims we receive each year. Another 20 to 25 per cent of claims are received for Canada, and the rest are pretty much equally distributed over the rest of the world."

Know thy customer

Kevan McCullum, Vice-President of United Mercantile Agencies, an international collection agency based in the United States that deals strictly in commercial receivables, agrees that up-front research is key to managing future problems.

"Use all available means to keep the lines of communication open," he says. "There's no 100-per-cent guarantee, but when payment can't be collected, the situation I see most often is that, for whatever reason, the buyer has just quit talking."

Some buyers – even Fortune 500 companies, McCullum discloses – never pay on time, simply because their accounts payable processes differ from their exporters' terms. Some companies have cash-flow difficulties that prevent them from paying on time; others may have an issue with the product or service received. It's essential for you to know your customer and what problems may arise, so you can prevent them or at least facilitate a speedy resolution.

Credit – a question of trust?

"Getting a credit check makes good business sense," advises Suzanne Morris, EDC's Vice-President of Small Business Services. "Make sure you are aware of your buyer's financial condition and payment history; have your accounts receivable insured against non-payment; and deal only with well-organized companies – especially in the beginning."

EDC has a number of easy-to-use and inexpensive online products that exporters can use to check out their buyer and to insure their transactions (www.edc.ca/smallbusiness). After receiving a simple electronic form completed by a company, EDC can supply information about the potential buyer's credit history and offer an opinion on whether EDC would be willing to insure the deal, based on the information provided.

"I can't stress enough how helpful EDC has been to us," says Dr. Mirek Macecek, President of Techno Scientific Inc. (www.technoscientific.com), a successful high-technology firm, founded in 1981, that builds sophisticated, customized testing systems for companies and organizations such as steel mills and aerospace firms. Techno Scientific's annual sales range from $1 to $5 million, and its products and systems are sold in North America, throughout Europe, Pacific Rim countries, Asia and Australia.

"Our EDC contact, Chris Despond, has helped us get background checks and learn and assess the history payment of the companies we wanted to deal with overseas. His expertise made all the difference in the world, ensuring we were not left at the buyer's mercy."

Macecek and others in the know also counsel the practice of excellent marketing and financing techniques. Be savvy about extending credit, making absolutely certain that the terms and conditions of payment are explicit and comprehensive. If possible, consider offering promotions or discounts dependent on early payment. Then, whatever your product or service and however good you are at producing it, having a good accounts receivable management process will make all the difference to getting paid in full, on time.

When all else fails

McCullum says that credit extension is not an exact science. "But with every month that passes, your chances of getting paid diminish," he emphasizes.

According to the Commercial Law League of America, the chances of collecting a debt after one year are just under 25 per cent; after two years, it drops to 10 per cent. "Understand that when payment is in default, it means someone else is getting paid ahead of you," says Henrie.

To ensure this doesn't happen, Henrie, McCullum and Macecek all advise exporters to develop a regular, professional relationship with the buyer – specifically, the person who'll be cutting the cheque. Then contact that person before the due date to gauge whether there might be any problems. If that person can be engaged on the exporter's behalf, the matter can sometimes be resolved with minimal delay.

"Document your attempts to get payment," says McCullum. "I understand many exporters only want to contact a commercial collection agency as a last resort, but if it does become necessary, this evidence will be invaluable." ■

Photo: © Ghislain & Marie David de Lossy / Getty Images

You have insurance for a reason: to provide financial relief when all else fails. This is where EDC's Claims and Recoveries team comes into play. They have an enviable record of turning around claims within 30 days or less, far surpassing the industry norm.

This record is about to get even better thanks to the implementation of a new system created by Toronto-based Terida Systems (www.terida.com), a software developer that supports legal, medical, corporate and government initiatives. Terida is well-known for its work in supporting lawyers on class action suits such as the Walkerton Ontario water contamination case. "Our specialty is developing web-based systems that provide extensive and integrated communications in a fully secure manner," says President David Gillman.

EDC's new system will deliver the technology required to track all information surrounding debt-recovery cases in one web-browser database.

"Previously, everything was done manually," explains Paul McKenna, a Business Analyst with EDC's Insurance and Loans Services. "The new system is expected to provide EDC with cost and time efficiencies, allowing us to maximize the expertise we can provide with the same level of resources. When EDC can contain its costs, savings can be passed back to exporting companies making claims. It's a direct benefit to customers, who will receive a greater share of the money recovered." ■

Combating Corruption & Bribery

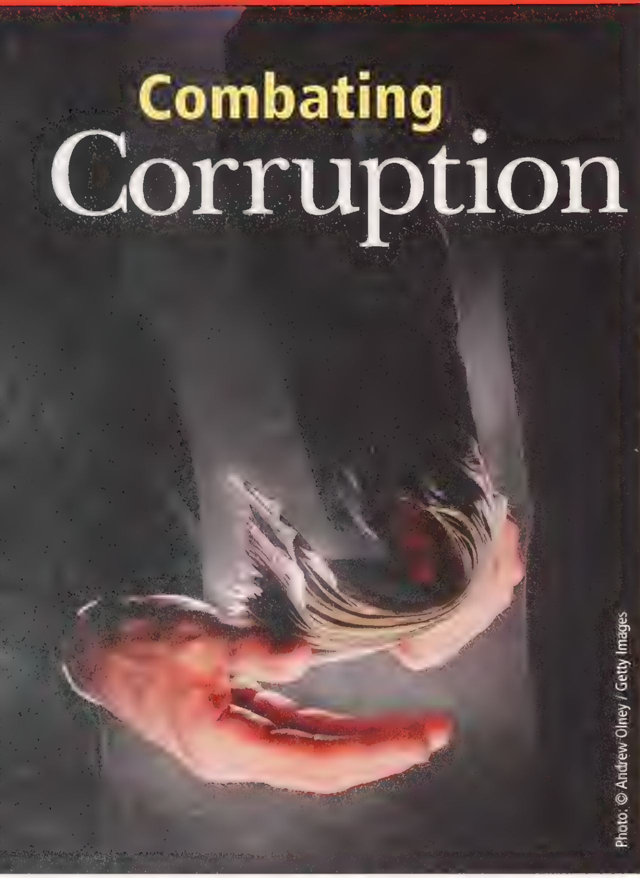


Photo: © Andrew Olney / Getty Images

BY **MICHAEL N. DAVIES**

In many parts of the world, companies and governments alike recognize that corruption and bribery increase the cost of doing business and diminish the attractiveness of a country to new investors or traders. Corruption deters foreign investment, stifles economic growth and sustainable development, distorts prices, and destabilizes legal and judicial systems. As a result, trust and reputation are seriously undermined.

Reported almost daily, there is no scarcity of scandals illustrating the depth and pervasive nature of corruption: high-level officials bribed for major export contracts, national assets plundered and endemic confusion between private and public funds in some developing markets. While these are the headline grabbers, small-scale corruption proceeds unimpeded in many parts of the world – "facilitating" payments to local officials or customs officers at borders happens routinely.

Governments and the private sector are working together to combat this problem and to enhance governance and transparency in the global economy. One important response is the Organization of Economic Co-operation & Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This Convention makes it a crime to bribe a foreign public official in exchange for obtaining, or retaining, international business.

By the end of 2003, the convention had been ratified and transposed into domestic legislation by all the original signatories, including 28 OECD member and four non-member countries.

For its part, Canada introduced the *Corruption of Foreign Public Officials Act* in February 1999. The OECD reviewed Canada's performance against the convention's requirements in February 2003 and concluded that, by and large, Canada has met the convention's requirements. A number of recommendations were also made on how Canada could improve its performance.

But simply outlawing bribery is not enough. Businesses themselves are aware that they too must play a role in addressing growing demands from citizens and financial markets. Many Canadian companies have implemented strict codes of business ethics requiring proper behaviour by employees engaged in foreign trade and investment activities.

The pace of both new regulation and the expectations of governments, financial markets and citizens requires exporters and investors to have practical guidance on the realities of doing business abroad and how to avoid corrupt practices. The new demands for better corporate governance pose a major challenge to corporate managers who face a bewildering maze of new rules and regulations on matters such as accounting, money laundering and conflicts of corporate interest. Business managers need a no-nonsense guide to cut through the fog of bureaucratic requirements.

To meet this need, the International Chamber of Commerce (ICC) recently produced *Fighting Corruption – A Corporate Practices Manual.* It is written by business people for business people. *Fighting Corruption*, first published in 1999 as *Fighting Bribery*, has been fully revised and updated with new chapters on extortion, whistle blowing, customs and small- and medium-sized enterprises.

Corruption and bribery can be curtailed if business and government put their minds and efforts to it. Both business and countries will be better for it.

You can order *Fighting Corruption* from the ICC's Canadian affiliate, the Canadian Council for International Business (CCIB). For details on this and other ICC publications, visit www.ccib.org or contact Sandra Morrison at (613) 238-4000. ■

Michael Davies is Chair of the Bribery and Corruption Committee of the CCIB and a founder and director of the Canadian Chapter of Transparency International.

Call Centres: Ringing in Profits

BY TERRI-SUE BUCHANAN

If you live in Seattle and you're on eBay and you call customer support because you're having trouble posting your collection of Beanie Babies, chances are you're talking to a Canadian. More specifically you're talking to one of 800 Canadians working in the eBay customer contact centre in Vancouver.

American companies have long looked to Canada as a first-rate location to open a call centre, or to buy call centre services, for a number of compelling reasons: an exchange rate that allows U.S. companies to operate for substantially less, cultural affinity, access to an educated workforce and a state-of-the-art technological infrastructure.

Each time a Canadian call centre sends an invoice to the American company that has contracted for these services, that is considered an export of services.

"Exporting services works essentially the same way as exporting a traditional product in a box," says Todd Evans, EDC's Director of Economic Analysis and Forecasting. "The only difference is that we're basically billing for our knowledge."

Diversifying Canada's export bundle by expanding into new industries is critical to Canada's future. "We anticipate that service exports will grow by 30 per cent over the next five years which will support more than one million jobs and $65 billion of GDP for Canada. The growth in call centre services is an important element in that growth."

What is a call centre?

A call centre is an umbrella term for companies that provide such services as travel reservations, account queries, technical support or customer service. A Customer Contact Centre, as it is more often referred, services customers or prospects and conducts business transactions over the telephone. The industry is generally divided into two categories: outbound (e.g. telemarketing) and inbound (e.g. technical help desk, inquiries, customer service).

The leading industries that use call centres to maintain customer contact are information technology, telecommunications, transportation, manufacturing, utility, financing, insurance and retail companies - for primary business needs such as marketing, prospecting, sales and customer service.

Why is work being outsourced?

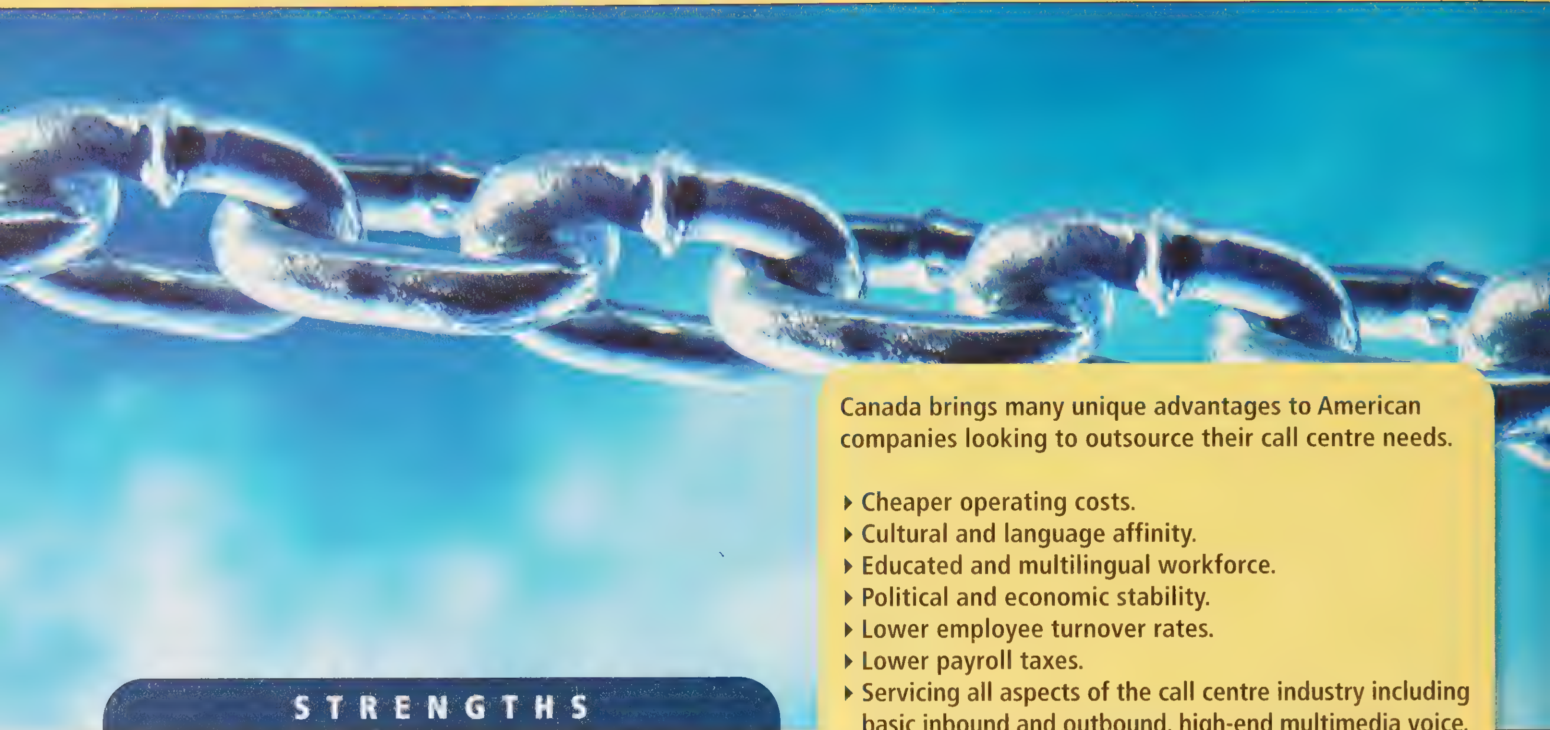
Given today's new information technologies such as the Internet and enterprise applications, these services can now be performed virtually anywhere. This fact, along with the recent global economic downturn, has prompted American companies focused on cutting costs to look for suppliers who can deliver a similar level of service at a cheaper rate.

Countries such as Canada, Mexico, India, Malaysia, and the Philippines recognized the growing demand from American companies and laid plans to provide the service exports that were required. A recent Datamonitor report suggests that one in 24 call centre agents serving U.S. customers is outsourced to near or offshore centres, and predicts that approximately 800 new outsourced Canadian call centres will be created by 2008.

Opportunities for Canadian call centre service exporters

In 2002, there were 450 outsourced call centres in Canada. This number is predicted rise to 600 by 2007. Prominent American call centres currently importing these services from Canada include: ACI in Quebec; Dell, Ford Credit and Neiman Marcus in Alberta; and Convergys and eBay in British Columbia. Ontario has attracted such U.S. giants as AmeriCredit, EDS, IBM and Sitel.

Sector SWOT Analysis



Canada brings many unique advantages to American companies looking to outsource their call centre needs.

- **Cheaper operating costs.**
- **Cultural and language affinity.**
- **Educated and multilingual workforce.**
- **Political and economic stability.**
- **Lower employee turnover rates.**
- **Lower payroll taxes.**
- **Servicing all aspects of the call centre industry including basic inbound and outbound, high-end multimedia voice, on-line financial services and technical support.**

STRENGTHS

Without a doubt, American companies are now the big consumers of Canadian labour and are responsible for tremendous growth in the Canadian call centre sector.[1] According to Site Selection Canada, in the 18 months ending September 30, 2003, more than 37,495 customer service representative positions were created and 118 customer contact centres established across Canada, with about 98 per cent coming from U.S.-based customers. (Site Selection Canada provides consulting services to companies seeking cost efficient, long-term Canadian and U.S. site locations for expansion and/or re-location.)

In the wake of the U.S. economic slowdown and a general movement to cut costs, U.S. companies are looking for cheaper locations where remote processing work can be based. Consequently, the number of U.S.-based call centres is expected to drop from now until 2008, with Canada being the beneficiary of many of these jobs.

Quality and cost

What makes Canada a good location for outsourced call centres? Ultimately, Canada's appeal is based on the balancing of two major drivers: **quality** and **cost**.

Perhaps Canada's biggest advantage is its proximity to the United States, says Lisa Nadeau, Senior Research Associate, Conference Board of Canada. "The others would be culture and language similarities. We understand the small talk, we watch the same television shows and there are no accent issues. This is essential because American consumers have strong opinions about who they want to deal with when they have a question or need help."

Outsourcing to Canada also avoids the complicated logistics of site selection, including the legal and regulatory issues that come into play when setting up and managing in-house call centres outside of North America.

According to a 2004 KPMG study *Competitive Alternative*, Canada's business costs are the lowest of the G-7 countries – from 5 to 20 per cent lower than those offering similar services in the United States.

Canadian operational efficiencies from the labour savings alone still provide major benefits. According to Steve Demmings, President of Site Selection Canada, the annual payroll savings to a U.S. company using a call centre employing 300 Canadians is US$2.4 to US$3.3 million and the savings to establish a call centre, based on a five-year lease, is US$12.1 to US$16.5 million.

The Conference Board of Canada's fourth annual *Connectedness* Index (2004) of 10 leading OECD countries also confirmed that overhead costs in Canada are cheaper because our prices for Internet access and regular and mobile phones are lower.

[1] *Meeting America's Demand with Canadian Solutions*, Steve Demmings President, Site Selection Canada, Mar 2004

New Brunswick: call centre success story

When the call centre industry was new, the government of New Brunswick determined that it offered many unique advantages.

"When the industry started 15 years ago," says Stephanie Turner, Business Development Manager for Enterprise Greater Moncton, "the region had high unemployment at about 12 to 13 per cent, 6,503 square metres of vacant office space, a bilingual work force and a solid telecommunications infrastructure.

We had a great package to sell and today, thanks to the growth of this industry, New Brunswick has low unemployment (close to full employment in the urban core) and virtually no vacant office space. Now it's a matter of managing the growth."

WEAKNESSES

Despite a healthy growth in Canada's call centre industry over the past eight years, future developments could impact our ability to compete.

- Rising Canadian dollar makes the domestic industry less competitive.
- Increased competition from countries such as India with large, educated labour forces.
- Lack of leadership in the industry to develop strategy to deal with future issues.

Simple demographics is one factor that could outweigh Canada's advantages in the call centre sector over the longer term, says Keith Dawson, Editorial Director of *Call Center Magazine.*

"With a nation of roughly 30 million, the demographics are stacked against Canada compared to countries such as India with its rapidly growing population and highly educated workforce," Dawson says. "In certain sectors, there is no way that Canada can continue to compete on cost alone."

Marketing for the future

Another weakness is Canada's inability to create awareness of its call centre expertise in the United States – which is generating a large percentage of the world's call centre business, says Demmings.

"Canada's call centre industry has gone through several major changes over the past eight years. When the American unemployment rate was running low, it created huge opportunities for Canadians because the U.S. couldn't find qualified labour. That changed after 9/11 when business in that country came to a virtual halt for six months. This was compounded by the onslaught of competition from countries such as India. Right now, we're competing against the world – and we need to stop and plan where we want to be in 10 years."

Nadeau agrees. "At this point, Canada can continue to compete as long as we're not relying solely on the cost advantages we provide. What we really need to be promoting is our technical prowess and quality of service because there appears to be a growing need for higher-end services (services where the value of each inbound call can impact the company's bottom line, such as high-end financial services companies.)"

This requires that Canada starts looking at what will be required over the longer term to provide this higher-value service. Are we, for example, making sure that we have the education programs in place to train the next generation of call centre experts? Do we have the right financial and tax incentive programs to attract companies to Canada? Are we keeping pace with technology so we can provide the infrastructure that will be required?

Taking it to the next level

"There is a lack of unified leadership in the industry, to guide the future development of this sector," says Demmings. "Everybody talks about the next level of jobs, but nobody is taking a role in saying, 'How do we make sure we're positioned to take advantage of these opportunities so that we can create new, higher-paying jobs for the next generation of Canadians?"

Nadeau agrees saying efforts appear to be driven by local governments. "Provinces such as New Brunswick and cities such as Sault Saint Marie in Ontario have put together successful programs to attract new business to their cities and regions. And their plans are paying off at these levels. But a more concerted effort is needed to ensure we can meet future challenges."

OPPORTUNITIES

Datamonitor estimates that the United States will lose about 3,000 call centres and some 133,000 agent positions by 2008, with a good portion of the contracts being outsourced to Canada.

And while outsourcing offshore to countries such as India can be cheaper and effective for routine customer service, it can become riskier with high priority customers. Most analysts agree that the advantages of outsourcing to Canada over other offshore providers are cost-effectiveness, cultural affinity and geopolitical stability.

Demand for quality

Analysts also say that many outsourcers outside of Canada lack the customer service, sales, business and IT skills to manage bureaus, especially for quality-demanding U.S. customers. Consequently, Datamonitor predicts there will be a shakeout in the Indian call centre market, which it estimates has 6,000 to 8,000 employees.

According to Site Selection Canada, in the last three years (up to the end of September 2004) 166 call centres were established in Canada, creating about 50,000 jobs. Of these, 60 per cent were smaller call centres located in tier two and tier three cities, with up to 300 employees. This would indicate an emerging opportunity in the smaller centres such as Thunder Bay, Sault Saint Marie, Bathurst and Sydney.

"We have a strong infrastructure and a growing reputation for delivering quality service at an affordable price. The next step is to focus on education and training, especially in those resource-based communities where industries are dying. This is a great opportunity to build our skill level and give people meaningful jobs at decent salaries of $40,000 to $60,000 a year," says Demmings.

The challenge of setting up call centres in developing nations has helped to tip the balance in Canada's favour. Working in other parts of the world often involves complications that do not exist here such as:

- **Enhanced due diligence vetting vendors to ensure contract compliance and service quality.**
- **More work to cover the basics such as site selection, assessing, choosing and managing locations and working with vendors and hiring the right people.**
- **Coping with unique cultures, laws, practices and languages.**
- **Dealing with inferior infrastructures, more bureaucracy and political instability.**
- **Long flights and travel issues incurred when visiting other offshore locations.**

Outbound to inbound

With Canada's growing reputation for high-end call centre personnel, many provinces are positioning themselves to attract companies such as financial service providers. Outbound calling and telemarketing has dried up in Canada, says Demmings, and the time is over to talk low end.

"Where we have some great opportunities are in technical help desk, jobs that will provide higher skill sets and build on the infrastructure that we already have here. Let the outbound and the telemarketing business go to India and China, and let's focus more on opportunities that will require technical educations from vocational schools or university, where people can build a career."

THREATS

Outsourcing was a key issue in the campaign for U.S. presidential elections last fall, prompting concerns of a protectionist backlash that could hamper trade in services.

Nadeau, however, doesn't think this political activity will have a profound effect over the longer term, largely because of NAFTA. "What will be more of an influence is a heightened awareness by Americans that work is being outsourced when it could be performed at home. For example, if a U.S. company with a call centre in Calgary has customers telling them they don't want these jobs going outside the States, that company might have to sit up and take notice. While unlikely, changes could be made at the political level when this type of patriotism kicks in at the grass roots."

Dawson views the whole protectionist issue as a "tempest in a tea pot." This industry is not like manufacturing, he says, where call centres are being shut down and moved wholesale offshore. "Looking forward, it's not that call centre jobs in America are going to disappear. Rather, the question is where are the ***next*** 20,000 call centres going to be built? Chances are it will be somewhere other than in the United States."

The onslaught of the global economy

A Deloitte Research survey of 100 of the world's largest financial services companies found that these companies expect to shift $356 billion worth of operations and about two million jobs to developing countries by 2008. India is one country that companies are taking a serious look at for the following reasons:

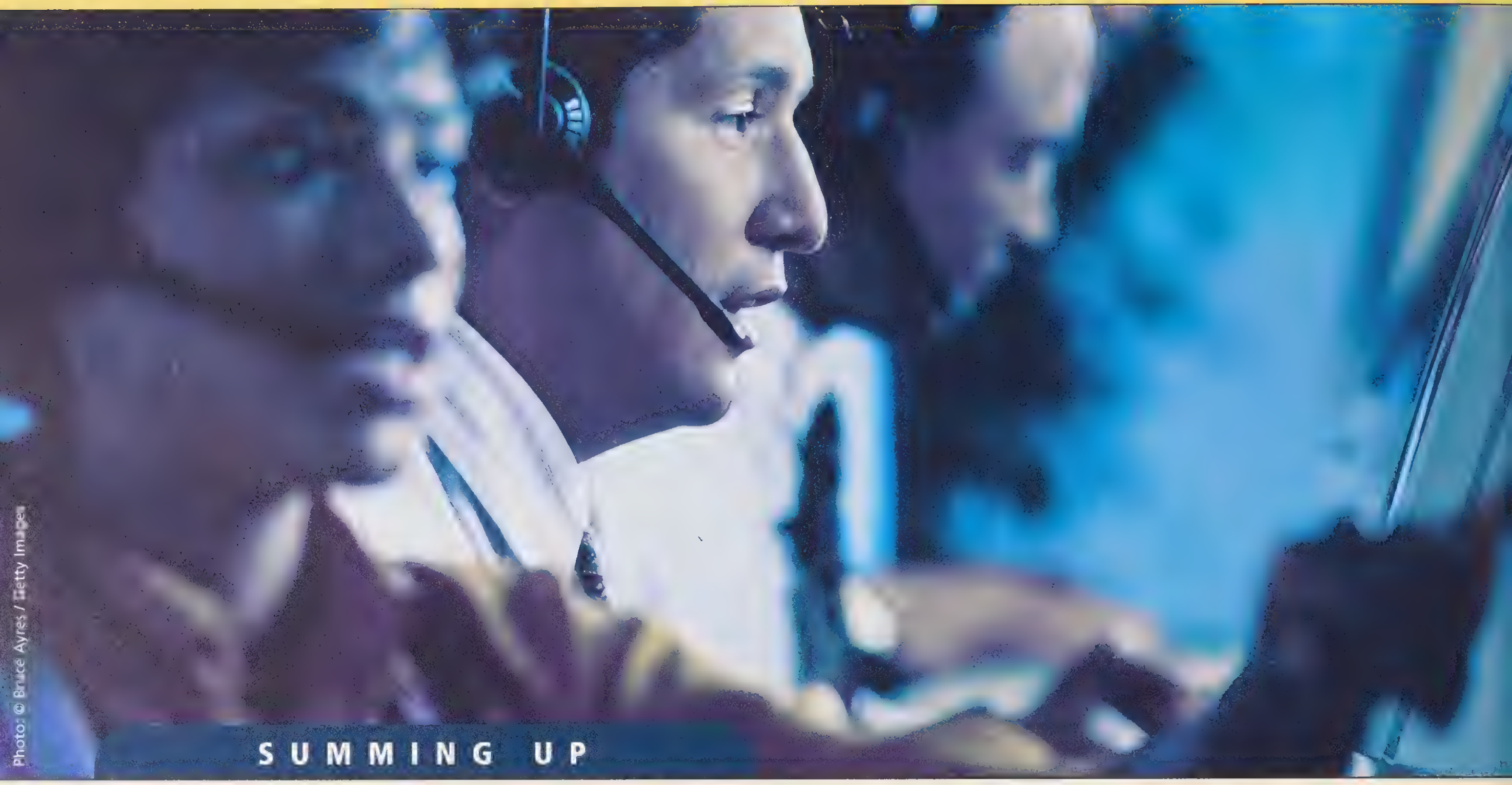
- The country offers a large pool of highly skilled and educated workers, proficient in the English language and IT literate.
- Increasing numbers of college graduates and a boom in private training services should ensure that these resources continue to grow.
- With privatization and the drastic reduction in the tariff of basic telecom, paging, cellular and Internet services, India is starting to build the supporting infrastructure needed to support this industry.
- Labour costs are considered at least 60 per cent lower than the U.S. and Europe.

Do Canada's other strengths offset those competitive regions of the world such as India, where it is substantially cheaper for a U.S. company to operate?

There is no doubt that India can promise cheaper labour, says Demmings, but Canada still offers cost savings for labour of about 20 to 35 per cent, depending on the exchange rate. "You also have problems with language and dialect in countries like India, which is why some companies such as Dell Computers and Lehman Brothers are pulling out their high-end calls. If customers complain, you have to respond to these complaints or risk losing the business."

Threats to Canada include:

- **Protectionist issues in the United States could cause a drop in new business if there is widespread grass roots support for keeping domestic jobs.**
- **India is a major competitor to Canada with its large pool of educated labour, infrastructure improvements and lower labour costs.**
- **Privatization and a drop in the cost for telecom, paging, cellular and Internet services makes it possible to run a call centre from literally anywhere.**



SUMMING UP

How should Canada adapt and compete?

Competing with a country such as India, with a population of one billion people compared to Canada's 30 million, presents a fundamental obstacle. The strategy then is to highlight the benefits of doing business in Canada such as proximity and cultural affinity.

"What Canada has to do is offer is an American-style experience minus 20 per cent in cost," says Dawson. "It's like filming a movie in Vancouver instead of New York. Presumably, you could build a set in Manila to stand in for New York, but it's just easier to go to Vancouver. The same logic applies in call centre land if you want an American experience."

Where is the industry going?

The first wave of U.S. based outbound outsourcing companies cleared the way in Canada for a new round of growth for the types of business that the country is actively courting today, namely the inbound operators and in-house customer contact centre operations. Those companies that fit into the 300 to 400 person template now have many Canadian expansion options to choose from.

The key, says Demmings, is to match future U.S. customer contact centre needs with Canadian wants and to seize the opportunity that has been created in the country for both sides. "The transition should be easy," says Demmings. "Canada has already built the telecommunications infrastructure. Our real estate and labour is cheaper than most places in the U.S. We have the language capabilities and the diversity of our country is a major benefit to a U.S. business selling to a global economy."

The bottom line

The bottom line, according to a 2004 Gartner report, *The Myths and Realities of Offshore Services*, is that in an era of rapid globalization, jobs have been gravitating and will continue to gravitate to their "best location" in the world, and best location is defined by best cost with adequate quality.

For these reasons, combined with our technology infrastructure and quality of human resources, Canada is perceived to have a distinct advantage over countries that offer contact centres and resources at cheaper rates. As more concerns arise from overseas contact centre operations, U.S. companies have been re-examining their offshore strategies and are discovering that their real cost savings are still significantly lower. For these reasons, many are strategically refocusing on Canada.

Answering the call for quality

The Canadian Customer Contact Centre Council opened their doors in March 2004. As a sector council, their mandate is to contribute to the health and prosperity of the industry and its work force.

With a positioning line of **Answering the Call for Quality**, their role is to develop the work force and provide information to career councillors and people within the industry, says Executive Director Elizabeth Thorn. Currently they are working closely with community colleges and training providers to make sure the skills sets are developed, and with economic development arms and provincial associations to build a consensus on a strategy to ensure Canada's work force is positioned to take advantage of opportunities.

Thorn estimates that four out of every 100 employed Canadians work in this industry, which Thorn believes will be the workplace of the future, with projected growth of more than 7 per cent by 2008. ■

Where Are They Now?

Telelink Call Centre

BY **CRESSIDA BARNABE**

In our first installment of *Where are they now?*, we catch up with the dynamic duo of Cindy Roma and Sydney Ryan of Telelink Call Centre based in St. John's, Newfoundland, whom we first introduced to *ExportWise* readers in 2001. Telelink Call Centre was founded as a traditional call answering service in 1966 with just two employees. Today it is a leading call centre in North America, offering its clients a full range of telephone-based customer support programs from answering services to web-based customer care.


Photo: Courtesy of Telelink Call Centre

Telelink's CEO Cindy Roma (left) and Sydney Ryan, Vice-President of International Sales and Marketing, are the dynamic duo behind the company's success.

ExportWise: *Exports accounted for 5 per cent of your sales in 2000. How has your export business grown since we last spoke to you?*

Sydney Ryan: Export sales now account for 40 per cent of our annual sales and are still growing every month. We are currently exporting to 46 U.S. cities, and we have one account in Australia.

ExportWise: *Have you hit any roadblocks exporting and how did you overcome them?*

Sydney Ryan: I think the greatest roadblock to exporting our services has been competing with offshore call centres that offer customer care and support for a fraction of the cost of North American call centres. But companies are learning by trial and error that there are many issues with outsourcing offshore. Telelink has successfully repackaged our services as a North American alternative.

I think most Canadian exporters are feeling the impact of the change in the dollar. Our U.S. competitors haven't changed their pricing, so in order to remain competitive we have had to squeeze our margins and lean on our suppliers to reduce their costs to us. I can't say we have overcome this obstacle, but I can say we are learning to live in the new state of the dollar.

ExportWise: *What is driving Telelink's growth? Exports? New technology?*

Cindy Roma: Export sales have contributed to the majority of our growth. In Canada, we tend to have to educate the prospect first to convince them that they need to outsource to us versus in the U.S. market where most companies embrace outsourcing. Therefore, there is a much shorter sales cycle and thus a much lower cost of acquisition when we sell in the United States.

We are continually upgrading our technology and working on new ways to deliver service to our clients in a way that will give us both greater profits.

In our business, our biggest asset and greatest cost is still our people. We were proud to be selected as one of six "Dream Teams" in Atlantic Canada by *Atlantic Business Magazine*. It was recognition for the Telelink Team; we wouldn't be successful if it were not for the people who work on our frontline.

ExportWise: *Have you changed the way you do business to meet the needs of export markets?*

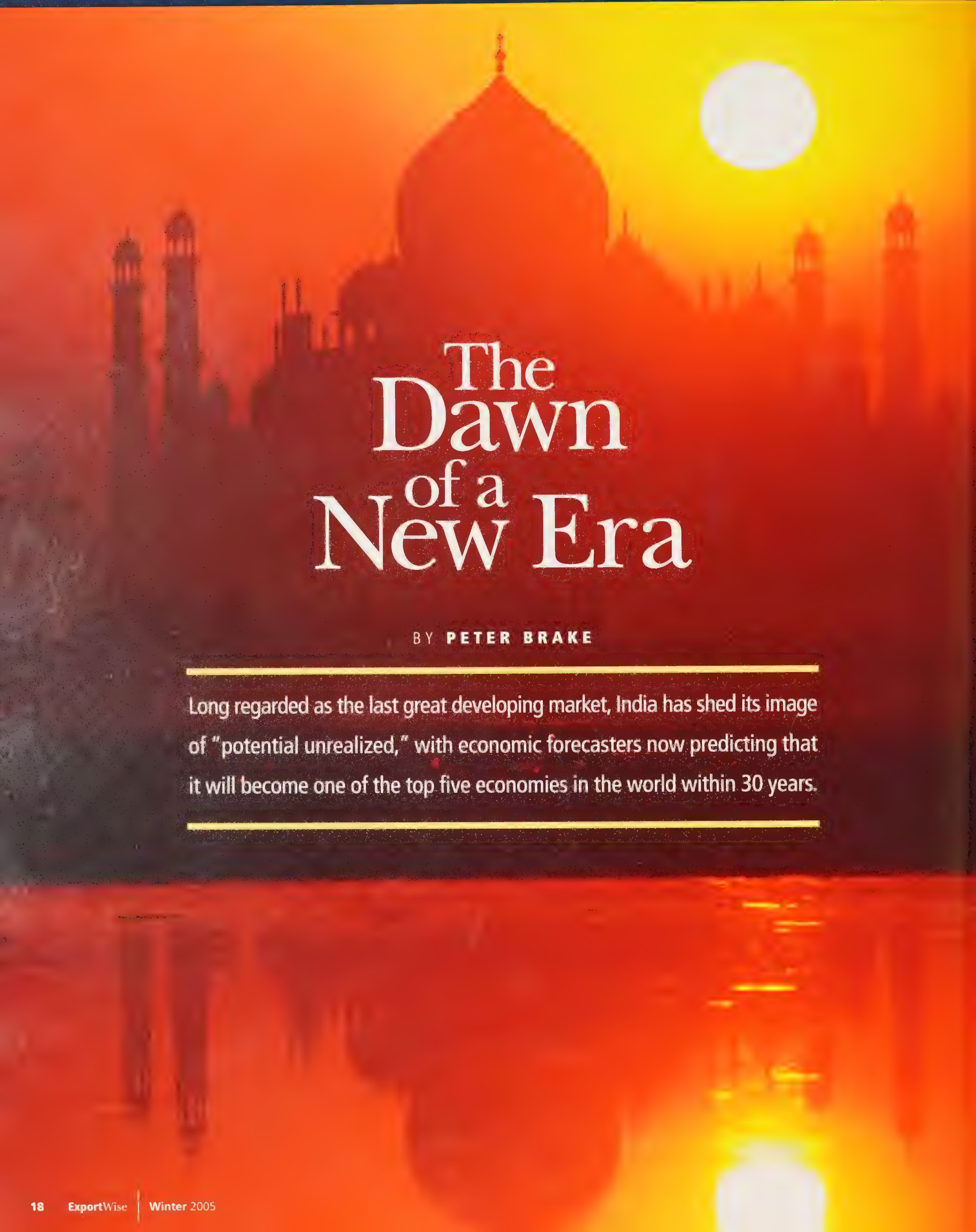
Cindy Roma: I am not sure if we have changed the way we do business because we are exporting or because of the tremendous growth that we have had. In the last six years, revenues have increased more than 100 per cent, and our number of employees doubled.

As a direct result, we are now in the process of becoming ISO 9001:2000 certified. The process has been a huge financial and time commitment on our part, but we are thrilled with how much stronger it has made us as a company, and the confidence it's given us to manage our growth.

ExportWise: *When we talked four years ago, you said that EDC was on your Top 10 list of tremendous finds. Are we still up there on your list?*

Cindy Roma: I think we said that EDC was number one on our Top 10 list! EDC has been tremendously helpful to our business and we would simply not export without it. EDC has taught us how to properly assess our export clients' ability to live up to their contractual obligations to us and to minimize our risks.

EDC took the risk out of exporting for us, not only by providing Accounts Receivable Insurance on our U.S. sales, but also by teaching us that we had to have a thorough credit process in place to do business in the United States. The cheque to EDC is one of the few we enjoy writing every month; as it grows, it's proof that we're growing too. ■



The Dawn of a New Era

BY **PETER BRAKE**

Long regarded as the last great developing market, India has shed its image of "potential unrealized," with economic forecasters now predicting that it will become one of the top five economies in the world within 30 years.

"The new India is optimistic and confident, with ambition to capitalize on its momentum and seize a leading role in international trade."

– Luc Dupont
Regional Manager for Asia, EDC

"Consistent economic growth in the 1990s has been followed by even greater expansion in the past four years, with GDP growth in 2004 matching or exceeding that of the previous year," says Nizar Assanie, a Senior Research Analyst with the Asia Pacific Foundation of Canada (APFC), an independent, not-for-profit think tank on Canada's relations with Asia.

India's leap forward has been credited to the economic reforms of 1991, at the time championed by Prime Minister Narasimha Rao, Dr. Manmohan Singh, Finance Minister, and Palaniappan Chidambaram, then Commerce Minister. After the Congress Party lost to the Bharatiya Janata Party (BJP) in 1996, the sustained growth of the Indian economy had been expected to keep the BJP in power. But a resentful rural population, feeling left out of economic development, thwarted those expectations and gave the Congress Party a surprising victory in the 2004 elections. Dr. Manmohan Singh is now India's Prime Minster and Palaniappan Chidambaram has assumed the role of Finance Minister.

Dr. Singh and Mr. Chidambaram are promoting a second wave of economic reforms aimed at giving reform a human face. To do so, they are extending economic development to the rural countryside and the hundreds of millions of Indians who felt left out of India's shining economic success. Mr. Chidambaram wants to be known as "the investment minister" and has identified his main reform objective as removing the obstacles to investment, both public and private.

The 1991 reforms focused on liberalizing the economy, dismantling many import controls, slashing customs duties and opening up capital markets for private investment. The country's private sector was able to capitalize on this by encouraging the well-educated, English-speaking domestic workforce to cater to the needs of the global information technology market. For example, western companies were quick to explore the benefits of using call centres that sprang up in the country seemingly overnight, promising lower cost and quality service that met international standards.

"The explosive growth in the IT industry has done more than give the country's economy a boost," says Luc Dupont, EDC's Regional Manager for Asia. "It has demonstrated to the world that Indians have the ability and the talent to compete on a global level. The new India is optimistic and confident, with ambition to capitalize on its momentum and seize a leading role in international trade."

Statistics Canada reported in 2003 that Canadian merchandise exports to India were $760 million, while service exports stood at $290 million (2002 figures). Official figures may understate the real extent of Canada-India trade. "Our research concludes that Canadian exports to India are about 20 per cent greater than the figures reported by Statistics Canada," says Assanie. "Moreover, Canadian investments in India are at least twice as high as that officially reported."

"We want Canadian exporters and investors to realize that trading ties between India and Canada are deeper and richer than official figures suggest," adds Assanie.

Valli Chettiar is keenly aware that the large Indo-Canadian population offers significant advantages in developing trade with India. A lawyer with Vancouver's Edwards, Kenny & Bray, and President of the Canada-India Business Council in British Columbia, Chettiar advises business clients on bilateral trade and investment between the countries.

"There are as many as one million Indo-Canadians, many of whom are familiar with political, economic and business practices in India. They know the culture and are versed in the many languages common throughout the country. This represents a significant resource for Canadian businesses interested in entering that market."

Chettiar says that trade opportunities abound in traditional industries and in emerging advanced technology sectors such as biotechnology, environmental sciences and genetics research. "Many states concentrate their development investment in key areas where they have demonstrated success and expertise. For example, the state of Andhra Pradesh and its main city of Hyderabad, home to eight universities, has established knowledge and biotech parks aimed at attracting entrepreneurs and manufacturers interested in commercializing local expertise in advanced research."

Country experts agree that in addition to the surging telecommunications sector, there are additional opportunities for Canadians in four key sectors: power, transportation, agribusiness and the environment (see related sector profiles on pages 20 to 23).

"These are the sectors that represent potential bottlenecks in the Indian economy that could stifle future growth, so they've become a government-led priority," says Dupont. In Dr. Singh's first address to the India-Association of Southeast Asian Nations (ASEAN) conference in October 2004, the Prime Minister announced a bold plan to attract as much as US$150 billion in foreign investment to India's infrastructure during the next 10 years.

"The challenges of doing business in India are many," Dupont adds. "They include dealing with an uncompromising bureaucracy, entrenched interests and antiquated infrastructures. Yet, as in other non-traditional markets, having patience and a commitment to forging strong and productive partnerships will lead to sustainable, long-term success."

Powering Up
the Future

When you consider that India has a power grid the size of Canada's with a demand 10 times beyond its current capacity, that spells opportunity in any language, says Klaus Triendl, President of SNC-Lavalin International.

Photo: © Charles O'Rear / Corbis / Magma

SNC-Lavalin International, the global network division of SNC-Lavalin. has been active in India for more than 40 years. Triendl sees expanding opportunities for Canadian companies in hydro, nuclear and thermal energy, in oil and natural gas, as well as in renewable energy.

"The power sector is India's top infrastructure priority, with targeted growth in excess of 7 per cent annually over the next two decades," Triendl says. "More than US$20 billion is expected to be invested over the next 10 years alone, with the goal of doubling capacity and providing power to all of India's 1.1 billion citizens by 2012."

In order to address the bottleneck in the power sector, the central government has passed new legislation called the *Electricity Act 2003*, which frees up the sector to participate in the production, transmission and distribution of electricity, as well as allowing producers to sell directly to consumers. These actions, coupled with the financial incentives offered by the government, have resulted in power projects of all sizes coming on line. The electrical equipment market is worth US$11 billion annually, with a projected annual growth of 5 per cent for the next five years.

"There is a new acceptance by debt-laden state governments that opening up the power sector to private investment, ownership and management is integral to meeting demand," Triendl says. "One of our key business strategies in India is advising utility boards on deregulation, unbundling, privatization and restructuring of their energy companies."

With as much as 30 per cent of India's energy needs fuelled by imported oil and limited domestic reserves, India's economy is vulnerable to global fluctuations in oil prices and supplies, says Anis Karim, EDC's Regional Manager, Asia Pacific. "Canadian oil and gas exploration expertise could find opportunities as foreign involvement in offshore exploration has been considerably eased since 1997 reforms."

As a cheaper and more assured alternative to oil, India is also interested in expanding its use of natural gas. The robust Indian economy has heightened awareness of the potential of natural gas to fuel industrial growth, and there have been major steps taken to expand import capacity, either via pipeline or liquefied natural gas. Mixed public and private investment in natural gas refining and distribution facilities opens new markets for experienced Canadian engineering companies.

The desire to diversify energy production has also stemmed in part from India's continued reliance on coal, which currently supplies more than half of the country's energy needs. While there are abundant natural supplies, the low quality and high ash content of the coal means there is a market for more efficient technology and for pollution control and mediation systems to control carbon emissions.

While progress has been made in liberalizing the power sector and increasing foreign involvement in energy production, the sheer size of India's needs means growing opportunities for international technology and expertise for decades to come. As Karim notes, "Most significantly, two central drivers of the Indian economy – consumer demand and the private sector – are unrelenting in their pressure to overcome obstacles limiting India's ability to succeed in this sector."

Roads

Less Travelled

Growing realization by India that its stellar economic potential depends on the expansion and modernization of its antiquated transportation systems has sparked mounting pressure to open the doors to private-sector and foreign investors.

Photo: © Dinodia

"All aspects of the sector – roads, railways, ports and aviation – require serious upgrading to keep pace with demand. The investment required is huge, in the hundreds of billions of dollars," says Anis Karim, EDC's Regional Manager, Asia Pacific.

"Almost half of India's villages do not have all-weather road access, and traffic congestion and the lack of cold storage means as much as 30 per cent of agricultural produce is spoiled before it even reaches market. Inefficient and unreliable transport and logistics systems are frustrating India's economic growth, hampering foreign investment and slowing rural development," Karim says.

Central and state governments recognize the transport bottleneck but, as is so often the case, have limited financial resources to deal with the problem.

India's roads, which cover more than 3.2 million kilometres, are a case in point. While new multi-lane highways have been built to connect some of the major urban centres – the so-called Golden Quadrilateral connecting Mumbai, Delhi, Kolkata and Chennai – much of the rest of India is still serviced by two-lane or single-lane highways. The creation of the National Highways Authority of India and the National Highways Development Projects is designed to implement a focused strategy of mixed public and private investment in highway infrastructure.

While road networks are increasing in use and importance, the backbone of India has traditionally been its railway system. However, the system faces conflicting demands to provide efficient rail freight and passenger services, as well as maintain its social mandate to connect rural India and the outside world.

Despite its burden, Indian Railways has made steady progress in modernizing its infrastructure through an ongoing, track-gauge conversion program that will add capacity and allow upgrading to modern freight and passenger cars. Canadian exporters have become important suppliers of railway rolling stock and Canadian expertise in freight management systems is well-known and respected in India.

Canada's expertise in maritime shipping could also find interested markets in upgrading India's marine transportation sector. Home to 12 major ports and 140 minor ports, inefficiencies and lack of automation result in high turnaround times and delays. Advanced abilities in system integration are essential to ensure that existing port and transport facilities can interface effectively and attract major shipping lines to the market.

The final link in India's transportation chain is aviation. Airports in Delhi and Mumbai handle 75 per cent of total international and domestic passenger traffic and act as regional hubs. Both of the major airports require upgrading to meet international standards, including advanced air traffic control systems to maximize runway efficiencies and minimize interruptions. Automated cargo handling and logistics systems to track airfreight are also a priority. Introducing private management to India's major airports marks significant progress.

The Indian government and the private sector realize that inadequate and inefficient transport links threaten the country's economic successes. Over the next 10 years, investment in various sectors is estimated at US$40 billion in roads, US$15 billion in railways and US$20 billion in ports.

Companies able to assist India with technology, equipment and expertise to overcome inefficiencies and integrate the county's transportation sector will, no doubt, find that opportunities abound in India.

High-Yielding Prospects

Photo: © Age Fotostock

With 65 per cent of its people, 25 per cent of its national product and 15 per cent of its exports tied to agribusiness, it's clear that this industry is central to India's continued prosperity.

And when you throw into the equation that this country, with its population of more than one billion people, has become self-sufficient in all but one of its most important crops, oilseeds, you can see a clear demonstration of its determination to succeed. Yet, despite having as much as one-tenth of the world's arable land mass, India's rank as a food exporting nation is surprisingly low.

"India is the world's largest producer of cereals, fruit and livestock and the second-largest vegetable producer. However, its share of international food trade is a tiny 1.5 per cent, with processed foods a meagre 8 per cent of total production," says Peter Nesbitt, EDC's Regional Manager, South & South East Asia.

The keen eye of the Indian entrepreneur is looking to turn that around and capture a greater share of the world food market for Indian agribusiness. That spells enormous, untapped potential for Canadian exporters. Larger, more efficient farms, corporate private investment and adopting modern production practices are expected to double total food production within 10 years.

The government is now taking steps to invest in cold storage capacity, transportation infrastructure and processing facilities. "A liberalized policy regime, new incentives for food processing industries and a rationalization of the tax structure are creating a more conducive environment for private investment. The country's middle class of some 250 million has also begun to alter its food habits, becoming more receptive to the convenience and taste of pre-packaged, processed foods," says Nesbitt.

Nizar Assanie, a Senior Research Analyst with the Asia-Pacific Foundation of Canada, agrees that times are changing. "The recently elected Indian government owes its election to the promise that rural people will be more actively involved and will benefit from the changes in the new India," he says. For example, Internet kiosks are being established in villages so that farmers can market their produce, coordinate purchases, learn new business techniques and access information on irrigation, crop prices, weather conditions and the yields of drought-resistance seed varieties. The establishment of an integrated coldchain storage system is also a key focus for the Indian government, which is aware that as much as 30 per cent of produce spoils before reaching its markets.

The Confederation of Indian Industry conducted a study that estimated the processed food industry will grow at triple-digit rates during the next few years, with sales of US$60 billion in India by the end of 2005. For Canadian exporters and investors, the developing processed food sector means increased opportunities to sell Canadian processed food products into the Indian market, as well as servicing the demand for enhanced storage and transportation facilities, packaging technology and management and logistics systems.

Selling into the Indian market requires research and preparation. "Food exporters must ensure that products are customized to recognize cultural and regional characteristics," advises Nesbitt. "Regional spices can be used to improve market acceptance of new products, and the sale of sweets and desserts should be timed to coincide with certain religious and cultural festivals."

Nesbitt also advises Canadian exporters to prepare strategies that adapt to India's infrastructure. "India is very large and transportation linkages aren't reliable or fast. A network of distributors may be required to get products to a wider market. Focusing market penetration on one region or city may be the best way to enter the Indian market in order to establish a foothold."

Cleaning Up

With Environmental Technologies

By 2025, more than half of India's population – expected to reach 1.3 billion – will be living in urban centres and within a mere 10 years, five of the country's cities will be among the 30 largest in the world.

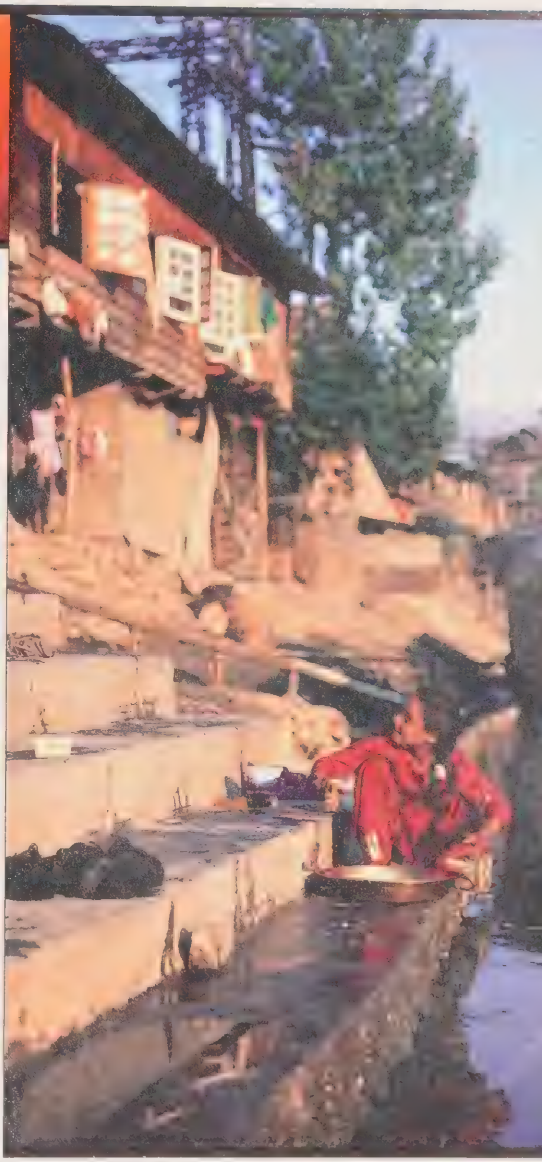


Photo: © Andrea Pistolesi / Getty Images

And with this explosive growth comes a heavy-duty environmental price. India is already ranked as the fifth leading producer of carbon emissions, with annual increases of 3 per cent, among the highest in the world.

This demographic trend is putting enormous pressure on India's already inadequate city infrastructure, which is beset by rapidly increasing demands for clean water, waste treatment and air pollution controls, says K.P. Nyati, Head of the Environment Management Division of the Confederation of Indian Industry. Nyati believes the rise of consumer demand and the pressing need to deal with urban migration means a much larger market for environmental goods and services.

The environmental goods and services market in India is currently US$10 billion, with annual growth expected of up to 10 to 12 per cent. Areas of particular interest to Indian buyers are technology and expertise in the areas of air pollution control, water and waste water treatment, waste management, energy management and environmental monitoring.

"Canada's leadership in these fields is world renowned, a reputation that Canadian companies can easily build upon," says Nyati. Efficient and effective technologies that filter water of impurities and bacteria are in high demand in areas where clean water is in short supply, and Canada has several companies that have developed cutting-edge techniques. "For example, Canadian immersed membrane technology and reverse osmosis products that help deliver clean water supplies have already grabbed the interest of Indian buyers."

The key is to establish water as a valuable commodity, requiring investment to maximize its utility and distribution which will, in turn, encourage reuse, recycling and conservation. This model is already being implemented in free trade zones, new industrial parks and housing developments where the private sector has been awarded management of water rights. Nyati points out that private investment and management has led to increased efficiencies and higher maintenance standards.

India's middle class has also embraced environmentalism, spurred by the increasing pollution of India's cities and the lessons of the Bhopal disaster, where a lack of safety systems led to a leakage of deadly gases that killed thousands and caused long-term health problems for tens of thousands more.

"They recognize that urban air pollution, lack of sewage and waste water treatment and hazardous waste generation have serious long-term health effects, including as many as two and a half million premature deaths a year," says Nyati. "India's citizens are pressuring industry to establish corporate responsibility for environmental protection as standard corporate policy."

Effectively addressing India's environmental needs is a massive task, requiring technologies, public-private partnerships and financing. Competition for investment dollars is brisk, but the government has made headway. India is one of the few countries that have a ministry entirely devoted to promoting renewable energy sources. Central and municipal governments have co-operated to gradually phase out highly polluting urban bus fleets in favour of vehicles running on compressed natural gas. In addition, the judiciary has become much more stringent in enforcing environmental regulations and standards.

Far from discouraged, Nyati asserts, "The 'new' India is an optimistic India. It has the confidence that it can meet the challenges that confront it." ■

Dos and Don'ts of Doing Business in India


Photo: © Michael Keller / Corbis / Magma

Do

1. Tap into the pool of Indo-Canadian professionals with extensive experience in the Indian market and knowledge of Indian requirements and intricacies.
2. Commit to fostering relationships and building trust. Indians value long-term relationships and are loyal to trustworthy partners.
3. Tailor your market strategy. For example, goods exporters need to partner with local distributors; service or solutions providers (solution providers produce a package of services aimed at integrating different systems) need to provide quality after-sales service.
4. Provide flexible and culturally sensitive marketing to adapt to the boundless variety of India's ethnic, religious and linguistic differences.
5. Provide technology and knowledge transfer as an integral part of your business offerings.
6. Be patient. The Indian market is growing exponentially; getting in on the ground floor will mean substantial benefits over the longer term.
7. Differentiate between the public and private players and devise an appropriate strategy for each. In developing a public strategy: provide a detailed analysis of how many people will directly benefit from your project or your service; establish a more co-operative approach where you get more government involvement at the central, state and local levels; focus on effectiveness, providing a detailed cost/benefit analysis.

Don't

1. Don't try to do everything from Canada. Face-to-face meetings are crucial. Local business people also respect the commitment displayed by senior level involvement.
2. Don't market off-the-shelf solutions.
3. Don't assume that local offices can be established quickly and cheaply. Qualified staff can be expensive; locations in high-traffic, urban centres are costly and bureaucratic approvals confusing and slow.
4. Don't ignore domestic competition. The domestic market is flourishing and is focused on cut-throat pricing.

Business etiquette in India

Always present a business card when you introduce yourself. Surnames are preferred. Indian employees address their superiors formally and, unless told otherwise, you should do the same. Men should be referred to as "Mr." and women as "Mrs." or "Miss," depending on marital status.

Names are important. The use of first and last names differs among Hindu, Muslim and Sikh cultures. For example, Sikhs have a given name followed by either "Singh" for men or "Kaur" for women. Consequently, always address Indian Sikhs by a title and first name. It is not proper to address a Sikh male as "Mr. Singh."

You can expect that almost all Indian officials, civil servants and business people speak English.

In some urban centres, it may be regarded as an insult if business travellers attempt to communicate in Hindi when the common language is Tamil or Bengali.

Gifts are acceptable, but there are protocols that should be followed: gifts should not be opened in the presence of the giver; Muslims find it offensive to be offered gifts of alcohol or products made from pigskin; and observant Hindus are offended by gifts made of leather products.

Business can be conducted over meals or with drinks.

Many Indians are vegetarians. Therefore, if you are conducting business over a meal, meat dishes should be avoided.

If drinks are being served, it is customary to refuse the first offer, but to accept the second or third. Outright refusal is perceived as an insult.

Eat only with your right hand, as the left is considered unclean. Dishes may be passed with the left hand.

Do not thank your host at the end of a meal. "Thanks" is considered a form of payment, which is insulting. Offering to reciprocate, however, is advisable because it signals that you consider the relationship valuable.

Body language is important. Certain hand gestures such as a beckoning "come here" with a finger can be highly insulting. A more appropriate gesture is palm downward with a scooping motion with the fingers. Taking a relaxed posture by crossing your legs and exposing the souls of your shoes to your host conveys contempt. Neutral postures are safer.

The importance of a business deal is measured by the amount of time spent negotiating. Do not demonstrate or exhibit frustration or discouragement during a lengthy negotiating process. ■

A Perspective into India's Political Fabric

DOMINIQUE BERGEVIN

The Indian political scene has evolved to comprise more than 50 political parties, reflecting the diversity inherent in a country with more than one billion citizens. These parties have become more successful in appealing to specific constituencies, with the direct result that the political scene has become increasingly fragmented.

Photo © Richard I'Anson / Getty Images

Today, there are two main parties that dominate Indian national politics: the secular India National Congress (INC) which has been in power for most of the post-independence era and generally espouses democratic socialism; and the Hindu Nationalist Bharatiya Janata Party (BJP) which is largely supported by the business class. However, given the fragmented electorate, neither party is likely to win an outright majority in parliament. As such, coalition building will continue to be integral to Indian politics.

In the May 2004 elections, the BJP was upset by the INC. The BJP's defeat can be blamed on a variety of factors, from anti-incumbent sentiment to its neglect of the rural poor. Soon after its electoral victory, the INC-led coalition, supported by India's communist parties and headed by Prime Minister Manmohan Singh, agreed on a set of government priorities. Despite this coherent start, the administration's honeymoon period has been short lived. Discord and agitation within the coalition – from the regional parties seeking concessions in return for their support, to the left front pushing for consideration of their concerns – have been hindering governance. Although the coalition is fragile and built on opportunistic motivations, the common desire to keep Hindu Nationalists out of power is likely strong enough to allow the current government to survive the length of its term.

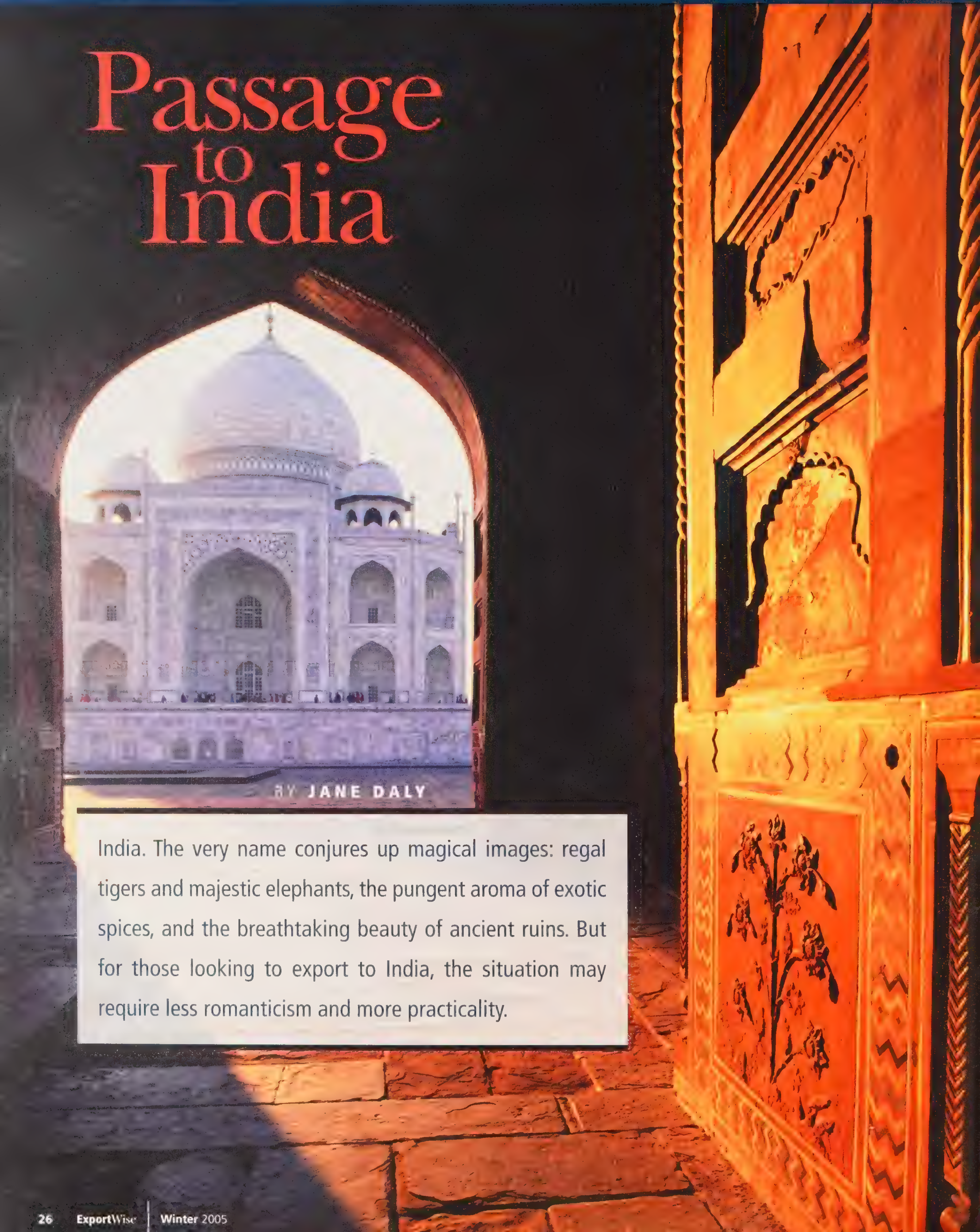
For more than 40 years, INC governments promoted protectionist policies. However, the party's policy direction shifted toward market liberalization in the wake of an economic crisis in the early 1990s, and subsequent governments have adopted similar neo-liberal policies. Although there is the perception that the communist influence in the ruling coalition will limit Prime Minister Manmohan Singh's ability to carry on with the country's economic liberalization, the reality is that the left front is not likely to be obstructionist. Rather, it will play the important role of ensuring a more balanced distribution of the benefits of economic activity to a broader range of people. Failing this, considerable socio-economic problems could overshadow the business opportunities created through liberalization.

Despite close to 15 years of liberalization and the existence of formal institutions in compliance with the World Trade Organization's standards, India has thus far failed to reach its full potential as a destination for foreign investment. The main impediments include the legacy of protectionism; an obstructive bureaucracy; poor infrastructure; pervasive corruption; and the policy unpredictability inherent in the nature of India's democracy.

Unfortunately, corruption and policy unpredictability are here to stay for the foreseeable future. However, given the government's focus on prioritizing investment in infrastructure, improvements on this front could be forthcoming, albeit slowly. Furthermore, India's desire to play an increasingly important role on the international stage will serve to progressively wane the cultural and institutional remnants of India's post-independence model of economic self-sufficiency. ■

Dominique Bergevin is EDC's Political Risk Analyst for South Asia. She can be reached at dbergevin@edc.ca

Passage to India



BY JANE DALY

India. The very name conjures up magical images: regal tigers and majestic elephants, the pungent aroma of exotic spices, and the breathtaking beauty of ancient ruins. But for those looking to export to India, the situation may require less romanticism and more practicality.

"Like a car in the summer sun, enclosed spaces can reach high temperatures in Canada. But in India, we found the temperature could reach a searing 80 degrees Celsius inside our gas pumps. If you're going to India, make sure your product can take the heat."

– **Ian Patterson**
President, FTI International Inc.

Since exporters are wondering if India will be the next China in terms of business opportunities, *ExportWise* asked three companies about their experiences there: FTI International Inc., which develops and builds dispensing systems for compressed natural gas; eNGENUITY Technologies Inc., which creates high-end visualization and simulation software for airplanes and vehicles; and Aecometric Corporation, which designs industrial combustion equipment for a wide range of applications, including sulfur recovery from gas.

All three companies say there are lucrative opportunities to be had, but they also agree that dealing with India is not the same as dealing with China. For those ready for an exporting adventure, here is their advice.

Start with a durable, high-quality product

FTI International Inc. manufactures equipment for compressed natural gas fueling including CNG dispensers. The equipment looks similar to a regular gas station pump, but because CNG is a gas rather than a liquid, the pressure is much higher, about 350 kg/cm^2. Each day, some 125,000 private and public transport vehicles in 17 countries fill up from FTI's dispensers, and the company holds about one-third of the world market.

"CNG is a hazardous, flammable product, so safety and quality are always our top priorities," says President Ian Patterson. "But India's environment poses special challenges. There's dirt, heat, humidity, air pollution and during the three-month monsoon season, it can rain for 20 hours a day, every day. Electricity is unreliable – it dims, it brightens, it goes out. Equipment has to be robust enough to withstand these harsh conditions."

As a result, FTI International has taken several steps to ensure that their dispensers are built tough. Their first dispensing system in India, set up five years ago, has met this test, and is still fueling 6,000 vehicles a day.

"Quality is always tops for us," says Jill Anderson, President of Aecometric Corporation. Aecometric designs, builds and services burners and burner systems, mainly for the pulp and paper, mining, and oil and gas industries – any place where a major heat source is needed. The company's primary business in India is producing sulfur recovery units, which remove sulfur from gas.

"Each project is highly customized," says Anderson. "We offer high quality, a good price, energy efficiency and better emissions than most. It's required a lot of research and development over many years, but our equipment proves that it was worth it. For our sulfur recovery projects in India, we're projecting more than 50 per cent annual sales growth over the next three years."

A unique or specialized product is a plus

In addition to quality, having a unique or specialized product can help get your foot in the door of the Indian market. "We got into India many years ago, purely by coincidence," says J.P. Lee, Director of the Asia-Pacific Market for eNGENUITY Technologies, which serves more than 800 customers worldwide. "Their navy had a project and we were the only company who could fulfill the requirements."

Similar to a computer video game but far more advanced, eNGENUITY's software can be used to train military pilots in a realistic interactive environment, as well as create advanced information and infotainment systems for automobiles, such as Global Positioning Systems and other dashboard video displays.

Photo: Courtesy of FTI International Inc.

To ensure safety and quality, FTI's equipment must be able to withstand the extremes of India's environment.

Growing industries are creating opportunities

Lee notes that some industry sectors in India are more ready to accept Western exports than others. "Six or seven years ago, India was not considered ready to accept a lot of software technology, but their defence program and their navy were a bit more advanced."

Western companies locating branches in India are also creating opportunities. "A lot of companies have begun outsourcing to India, such as Boeing, and this is creating requirements for our licenses," says Lee. And while all three companies say that being Canadian is a bonus – Canadian technology and products are considered by India to be very high quality – eNGENUITY has an added advantage because Canada is seen as a more neutral country when it comes to military applications. "Our main competi-

Photo: Courtesy of eNGENUITY Technologies Inc.

eNGENUITY Technologies' sophisticated software has found a market with India's military.

tors are in the United States and many of these products are controlled or restricted," says Lee. "In Canada, we have more freedom to export this type of software."

A desire for increased energy efficiency and new infrastructure is also opening up opportunities for Aecometric. "The Indian government did an audit and found that 500 cement companies are wasting energy, so our heating and drying technology can help," says Anderson. "The need for infrastructure is creating demand for gypsum wallboard, cement, asphalt, iron and steel, and these industries can also use our technology.

"The good thing about the Indian market is that it's opening up," Anderson adds. "There's good raw material, quality manufacturing, a large skilled workforce and a stable government."

But of course, as in any country, there are also challenges to go along with the benefits.

Playing the pricing game

"FTI's major challenge in getting into the Indian market was getting the right price," says Patterson. "People want to do things as cheaply as possible, so they pick the cheapest supplier, which may not be as safe or as high quality as your product."

FTI International did not have to prove the disadvantages of low quality to potential customers, as their competitors' equipment failed to meet the performance standards. "But safety standards are starting to build in India, and this has forced competitors to increase their quality and therefore their price," says Patterson. "It's now a more level playing field, but at the end of the day, price is still a major factor."

Another challenge is performance guarantees. "On our first order in India, the customer wanted mandatory spare parts, a 10 per cent performance guarantee for the first year, plus a second performance guarantee of 15 per cent for the second year," says Patterson. "You can have millions of dollars outstanding in performance guarantees at any one time. We've grown 40 per cent every year for the last three years, and we couldn't manage that growth without EDC's help with performance guarantees, bid bonds and Pre-shipment Financing."

Be prepared to take it slow

Some advance planning is also necessary to deal with a longer business cycle. "Do not expect to close deals in a North American time frame," says Lee. "And if there's an issue, don't be afraid to send a few reminders, or it can stagnate for quite a while."

Aecometric is able to get around this problem by creating burner products for use by several different industries. "We discovered many years ago that base industries are very cyclical. For example, the housing industry, which uses a lot of cement, is said to have a high-low cycle every seven years," Anderson explains. "Today we're into 30 different industries, so we always have at least two that are busy and two that are ramping up. India will continue to be a market for us, because unlike other cyclical industries, sulfur recovery never drops off."

Have someone on the ground

As challenges arise, all three companies say that it's important to have a staff member or partner readily available to help, preferably someone who is well acquainted with the Indian marketplace.

"Having someone there helps eNGENUITY offer great support services," says Lee. "People like being able to pick up a great product locally from someone who understands them. It provides a bridge between cultures."

Photo: Courtesy of Aecometric Corporation

Aecometric foresees strong demand in India for its sulfur recovery unit for years to come.

Patterson agrees that having the right local partner is key. "It's difficult to find the right person, but we are fortunate that FTI has a very strong partner. He knows the people and how to deal with the challenges. You must have someone you can rely on to work things out."

As an example, Patterson tells of a time that an Indian freight company delivered some spare parts to the wrong company. The company, deciding they wanted the parts themselves, refused to let their windfall go. It was their partner who convinced the company to relinquish the goods.

Patterson adds that having someone on the ground can also help provide excellent customer service – and in India, it's not unusual to have customer service requirements written right into the contract. "From 6 a.m. to 12 a.m., we have people available to respond to any requirements, and we must respond within two hours or pay a penalty," he says.

And in the end, good service is appreciated by all cultures and can overcome many obstacles. "We've solved the technical challenges, the power outages, the dirt and the heat – none have proven insurmountable," Patterson sums up. "Being professional and friendly cuts across all cultures. People are people. Be as comfortable with the station manager as you are with upper management. Follow through on what you promise to deliver, and you can succeed in India." ■

PFI Pellet Flame: Who 'Wood' Have Thought?

BY **TRISH EDWARDS**

"We were the first," says John Swaan, Founder and President of PFI Pellet Flame (1997) Inc., a wood pellet fuel manufacturer. Swaan is talking about how PFI Pellet Flame was the first Canadian company to seize on the notion of taking wood residue – sawdust and wood shavings – and convert it to supply pellet fuel to Europe and ship it by ocean-going vessel for commercial, industrial and residential purposes.

Photo: Courtesy of PFI Pellet Flame (1997) Inc.

"We operate as a biomass refinery, taking leftover, waste matter, compressing it and turning it into a bio-energy resource," Swaan says. The end product, wood pellets, is a clean-burning, renewable, alternative fuel source.

And what better part of the country to launch this kind of initiative than in the heart of the forestry industry in British Columbia, where the raw material – sawdust – is literally lying around everywhere?

Today, there are half a dozen wood pellet makers in western Canada, all members of the B.C. Pellet Fuels Manufacturers Association (www.pellet.org). The association promotes the use of wood pellets and provides information on the benefits of using pellet fuel for residential, commercial and industrial heating.

When Swaan founded PFI Pellet Flame 10 years ago, the North American market wasn't growing, so he looked to Europe. Sweden, he discovered, was very serious about reducing carbon dioxide (CO_2) emissions from fossil fuels, and he went after sales there. Sweden is one of the European Union's leading biofuel users. In the early 1990s, Sweden introduced a tax on fossil-fuel CO_2 emissions, and a market for wood pellets has developed quickly since then.

"Getting that first contract was stressful," says Swaan, who found that the toughest challenge was finding someone to be in your corner when you go to get financing. "The banks want you to have insurance, which is where EDC came in. Once all that was in order, we started moving forward and haven't looked back."

Today, the company is exporting successfully to Denmark, the Netherlands, Belgium and the United Kingdom, and it has a tiny but promising piece of the market in Japan. As governments around the world grapple with the need to increase their citizens' standard of living as well as respect environmental commitments, including those contained in the Kyoto Protocol, the potential market for clean-burning, energy-efficient wood pellet fuel can only grow.

"Although North America lags behind other parts of the world in developing and using renewable energy resources, we are starting to see growing interest and steady growth for pellet fuels in this market," says Swaan. "We're not a success story at home yet, but I guess you could say we're getting there."

Swaan's advice for companies looking to export is short and sweet: "Set up solid funding ... and believe in what you're doing."

CUSTOMER PROFILE

Company: PFI Pellet Flame (1997) Inc.
Business: Manufacturer of wood pellets
Location: Prince George, British Columbia
Employees: 40
Exports: 96%
Export Markets: Belgium, Denmark, Japan, Netherlands, United Kingdom
Contact: www.pelletflame.com

Global Compact: A Collective Voice for Corporate Consciousness

BY SALLY ENRIGHT

During the World Economic Forum in 1999, the United Nations challenged business leaders to join an international initiative that would bring companies together with UN agencies and civil society to support nine principles in the areas of human rights, labour and the environment. With an overwhelming response from the business community, Global Compact's operational phase was launched at UN Headquarters just one year later.

Talisman's Trinidad exploration program is just one example of how the oil and gas company is supporting the principles of the Global Compact. When it embarked on a low-impact seismic survey, it pledged that only humans and water buffalos would be used to transport all of the necessary equipment to minimize the impact on the environmentally sensitive area.

"The Global Compact offers a high-level, platform within which companies can develop policies."

– **Melissa Powell**
Project Manager, Global Compact

Out of that challenge has emerged a growing corporate consciousness, rooted not just in intergovernmental organizations, but in the heart of industry. In just four years, membership has grown to 1,700 companies, of which 20 are Canadian.

"It represents the largest global corporate citizenship initiative ever developed and is a totally new approach in the achievement of UN goals," says Georg Kell, Executive Head, Global Compact. "Never before have we asked the business community to be advocates for core values such as human rights or the protection of the environment." Recently, a tenth principle against corruption was added at the first Global Compact Leaders Summit in June 2004.

"The Global Compact seeks to work collaboratively by engaging companies and helping them to change the way they conduct their daily business, rather than attempting to police their activities," explains Melissa Powell, Project Manager, Global Compact. "It is not a code of conduct, but rather it embodies a leadership model where CEOs take a public stand on universal principles, engage in learning, dialogue and projects, and in their annual reports, communicate their progress in advancing the Compact's aims."

"This puts the burden on each company to show how they are living up to the principles," says Powell. "Society at large and NGOs can then vet their progress."

For most companies, the fact that their actions are being guided by universally accepted principles that governments have already set out is extremely valuable.

Photo: Courtesy of Talisman Energy Inc

Des Norris, Exploration Manager, Talisman (Trinidad) Petroleum Ltd. with grade school students. Talisman is conducting an exploration program in the area known as the Eastern Block in Southern Trinidad. This area does not receive sufficient social or government assistance and has a high rate of unemployment. TTPL is helping at a grass roots level by donating school supplies to all primary school students in the Eastern Block schools.

"The Global Compact offers a high-level, platform within which companies can develop policies," adds Powell.

Being part of a larger network is a key benefit for Canadian-based Talisman Energy Inc. – an internationally diversified oil and gas producer. "It gives us an opportunity to get feedback, share best practices and communicate what we are doing to a broader audience," says Reg Manhas, Manager of Corporate Responsibility and Government Affairs at Talisman. "In our annual Corporate Responsibility Report, we communicate our ongoing commitment and progress under the Global Compact."

"Before joining, we conducted an analysis of each of the principles and discovered that joining Global Compact would not require a major change in our operating approach, as we were already engaging in activities consistent with its principles," adds Manhas.

On June 24, 2004, the United Nations invited all the CEOs of signatories and heads of NGOs to UN Headquarters for a stock-taking meeting and to chart the future course of the Global Compact. It was a historic event at which Talisman and other Canadian companies such as HBC and Nexen were present. "The challenge now is to build a self-sustained ownership," explains Kell. "We want to move away from a UN-driven campaign and place greater emphasis on the practical impact of what these companies can accomplish as they face the challenges of globalization." ■

For more information on the Global Compact, visit www.unglobalcompact.org

Oil Prices Cause Major Financial Cross-Currents

BY **STEPHEN S. POLOZ**

Regardless of the outlook for the price of oil, everyone is paying more than predicted for energy this year. The resulting shifts in global monetary flows are creating strong cross-currents in the Canadian economy.

Economists are divided on whether oil prices will ease in the next few years or head for the stratosphere. Either way, the average price this year will be far above what economists were forecasting.

High oil prices can suck billions of dollars out of an economy, billions that are no longer available to buy houses, furniture, clothes or anything else. That makes economists worry about the possibility of a global slowdown.

Fortunately, Canada is a net exporter of energy, to the tune of more than $40 billion per year. Natural gas exports contribute about two-thirds of this surplus, with the remainder split among crude petroleum, refined petroleum products, coal and electricity. These inflows can act as a partial offset to the dampening effect of higher oil prices on the rest of the economy.

The net effect varies by region. Most energy-producing provinces are seeing strong growth in incomes and retail spending, which spreads the benefits of oil exporting around the country. Alberta is by far the largest energy exporter, and has the strongest growth in retail sales, at nearly 8 per cent in the year to August. British Columbia, which also exports a fair bit of energy (albeit only about one-tenth that of Alberta) is seeing sales growth of 5 per cent. New Brunswick is an exception – it is a key oil exporter, but is seeing soft retail sales – probably because it does not produce crude but imports it to be refined and re-exported.

Canada is a net exporter of energy, to the tune of more than $40 billion per year.

High oil prices can also affect Canada's non-energy exports. Major oil importing economies like the United States, the Euro Zone and Japan will have less to spend on Canadian exports if oil prices remain high. Canada's export sales have been strong overall so far this year, with 9 per cent growth in the first nine months of the year, reflecting a healthier world economy. Our sales to the United States, Japan and the Euro Zone are growing a bit more slowly, at about 6 to 7 per cent, than our total exports.

At the same time, higher oil prices are boosting Canada's sales to other oil exporting countries. Canada's exports to 16 major oil exporters (Algeria, Angola, Indonesia, Iran, Kazakhstan, Kuwait, Libya, Mexico, Nigeria, Norway, Qatar, Russia, Saudi Arabia, Trinidad and Tobago, the United Arab Emirates and Venezuela) reached $5.7 billion in the period from January to September this year. This represents an increase of 40 per cent compared to the same nine months in 2003, when exports were $4.1 billion. These non-energy exports cover the spectrum of goods and services from agricultural products to metals, paper and all sorts of machinery and equipment.

Most of Canada's regions are participating in the upswing of non-energy exports. Comparing the first nine months of 2004 to the same period in 2003, non-energy exports were up 24 per cent in Alberta, 21 per cent in Saskatchewan, 12 per cent in Manitoba and 15 per cent in British Columbia. In the east, New Brunswick is seeing non-energy export growth of about 9 per cent. Ontario and Quebec are participating, too, with non-energy export growth of nearly 6 per cent in both provinces. Prince Edward Island and Nova Scotia are lagging, with growth of around two to 3 per cent, while Newfoundland and Labrador's non-energy exports are holding steady compared with last year.

The bottom line? High oil prices are having complex effects on the global and Canadian economies. If they persist, world economic growth will moderate along with Canada's non-energy exports, and regional differences in Canada's economic performance will deepen.

Stephen Poloz is EDC's Senior Vice-President and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

French Editor
Maguy Robert, Anne Tanguay

Associate Editor
Cressida Barnabe
cbarnabe@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative
Insight Communications

Translation
Jean Beaudin, Joanne Durocher, Manon Lahaie, Josée Lamirande, Pierre Legault, Anita Portier, Michelle Seguin

Contributors
Cressida Barnabe, Dominique Bergevin, Peter Brake, Terri-Sue Buchanan, Jane Daly, Michael N. Davies, Trish Edwards, Sally Enright, Dennis Jones, Sandi Jones, Stephen Poloz, Gilles Ross, Michael Toope

EDC Advisory Board
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EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution.

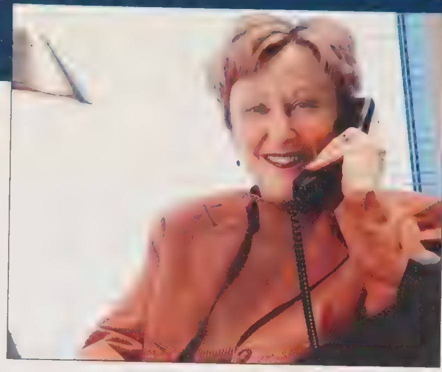
All dollar amounts indicated are in Canadian dollars unless otherwise specified.

Ce document existe également en version française sous le titre Exportateurs avertis.

Printed in Canada on Canadian recycled paper.

Canada EDC

Letters to the Editor



Brenda Brown, Editor

Dear Editor:

First of all I would like to take this opportunity to congratulate you and your team for putting together a quite interesting and informative publication. Personally, I like to read your articles about various market places (particularly about the emerging East European market) presented under Country Features and the numerous stories about successful Canadian businesses that sell their products and/or services abroad.

Secondly, I would like to point out that the Economic Snapshot on Romania in the Fall 2004 issue incorrectly labeled the local currency as being the Romanian Lev. The Romanian currency is, in fact, called "Leu" (with a "u" at the end instead of a "v"), and, therefore, since there is no relationship between the two, is not to be confused with the Bulgarian Lev also covered in the Fall 2004 issue.

For more detailed information about Romanian currency, please refer to the National Bank of Romania's web site at **www.bnro.ro/def_en.htm**.

Finally, I would like to wish you and your team all the best in providing Canadian exporters with new and pertinent information regarding world markets and the EDC services available to them.

Best regards,
Robert Venczel, MBA, PMP, CISA
President & CEO
Bivium Executive Consulting Ltd.
Canada

Editor's Note: *Thank you Mr. Venczel for pointing out this error. We apologize for any confusion this may have caused. We would also like to thank you for providing information about additional resources for our readers.*

In our Next Issue

Sector SWOT Analysis
Canada has earned a reputation as a leader in the field of computer animation. Our team of experts analyzes the strengths, weaknesses, opportunities and threats facing Canadian companies in this sector, and shares their tactics on future success for this industry.

Country Features
Canadian companies are taking advantage of increased export opportunities in the Persian Gulf region. *ExportWise* will showcase three areas which offer the greatest potential for Canadian exporters: United Arab Emirates, Oman and Qatar.

Where are they now?
This savvy exporter's business has grown by leaps and bounds since we first met her in 1999. *ExportWise* catches up with Marianne Bertrand of Muttluks.

All this and more in the Spring 2005 Issue of *ExportWise*, hitting your desks in April.

Solutions Corner

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at **www.edc.ca.**

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

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For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

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Does your foreign buyer need a loan?

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Need an investor for your export-related venture?

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What if my buyer demands a bond?

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In partnership with NorthStar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC Simplified Contract Bonding, a streamlined application/approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

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Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

Companies with annual export sales of up to $1 million can call our team of small business specialists at 1-800-850-9626.

Companies with annual export sales of more than $1 million can call the nearest regional office at 1-888-332-3777.

CANADA

Export Development Canada
Head Office
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
www.edc.ca

Western

contactwest@edc.ca

Linda Niro
Regional Vice-President

Calgary
Tel.: (403) 537-9800
Fax: (403) 537-9811

Vancouver
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton
Tel.: (780) 702-5233
Fax: (780) 702-5235

Winnipeg
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario

contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto
Tel.: (416) 640-7600
Fax: (416) 862-1267

London
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa
Tel.: (613) 597-8523
Fax: (613) 598-3811

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

Quebec

contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic

contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's
Tel.: (709) 772-8808
Fax: (709) 772-8693

INTERNATIONAL

Mexico & Central America

Mexico City
Doug Fortney
Regional Manager
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Regional Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

China

Beijing
Winston Kan
Regional Manager
Tel.: (011) 8610-6532-3536 ext. 3357
Email: wkan@edc.ca

South East Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Regional Manager
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Email: rsimmons@edc.ca

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EDC's Magazine for Canadian Exporters

www.edc.ca

Spring 2005

ExportWise

Animation Sensation

The Canadian computer animation industry is a runaway success ... at home, at the Oscars® and around the world.

In This Issue

Servicing the Global Market

Over the year *ExportWise* will be examining the global trade in services to highlight how Canadian exporters can build upon past success. Service exports, such as engineering, computer and transportation services, represent 20 per cent of the world's trade and are expected to reach more than $2.4 trillion in sales in 2005.

Photo: © Martin Lipman

Gilles Ross, Acting President

To date, Canadian companies have had a respectable share of global service exports – more than $62 billion in 2004 – with Canada's share expected to grow some 25 to 30 per cent over the next five years. This, in turn, will help to support one million jobs and $65 billion of Canadian GDP.

While this growth represents significant gains, trade data suggests that Canada's potential is unrealized when compared to the 1990s when this country was leading the world in service exports. Now, countries such as China and India – key competitors in a number of sectors – are leading the way. And they bring many of the same strengths that Canada does to the market such as cheaper operating costs and a well-educated and bilingual work force. Simply, their performance is starting to outshine ours.

Canada can reclaim a place in the world's service market if more Canadian companies embrace the growing trend of integrative trade. Integrative trade means that companies invest in acquiring, building or expanding facilities in countries where the delivery of the service takes place to reduce costs, increase efficiencies and better serve their customers. It can also mean investing in foreign firms who intend to use Canadian technology, equipment or expertise to expand their capabilities. The key is that the benefits and wealth flows back to the parent company which is strategically located in Canada. Many companies clearly understand the benefits of integrative trade. Sales by Canadian service companies located in foreign markets are expanding as Canadian firms position themselves closer to their customers.

To understand the importance of this new trend, consider for a moment that an estimated $400 billion in sales is generated by the affiliates of Canadian companies each year. Wealth from these sales continues to flow into Canada, creating jobs and prosperity for all. In other words, direct exports of services from Canada are being replaced by sales of Canadian subsidiaries located in foreign markets. For example, sales by Canadian service affiliates outpace cross-border service exports by a factor of nearly three to one ($156 billion versus $59 billion) and have grown faster than cross-border sales.

EDC representatives in key strategic markets support this trend toward integrative trade. Just this month, we appointed a new representative to India who will be working out of the Canadian High Commission in New Delhi, adding to those already serving the world's fastest growing markets from their bases of operation in Brazil, China, Malaysia, Mexico and Poland.

At EDC we are very aware of this growing trend and are working with many companies – large and small – to fine-tune our existing products and services to provide solutions that meet their insurance, bonding and financing needs. We recognize that this is essential so that we can continue to support the international trade activities of Canadian companies, particularly in priority developing markets and in sectors of strategic importance to Canada. This is part of our active support for the Government's developing markets trade agenda.

In closing, I am pleased to report that Robert A. Wright has been confirmed as EDC's new President and Chief Executive Officer, effective April 8, 2005. Mr. Wright has occupied a number of key positions over the past 30 years in the Government of Canada including his most recent position as National Security Advisor to the Prime Minister and Associate Secretary to the Cabinet, Privy Council Office. Mr. Wright brings considerable experience to EDC and will be a tremendous asset to the organization. I know you will join me in wishing him well in his new endeavour. ■

Sincerely,

Gilles Ross
Acting President

ExportWise

Spring 2005

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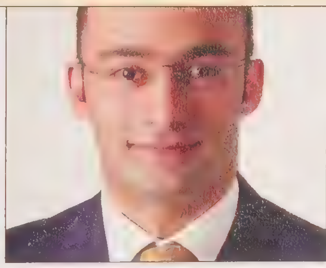

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Cover Animation: Rugrats in Paris – image courtesy of Klasky Csupo, Paramount Pictures and Nickelodeon Movies

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Triodetic:

Building the Framework for International Success

BY **SALLY ENRIGHT**

From the world's first IMAX® Theatre at Toronto's Ontario Place to a $3 million stockpile structure for a copper mine in Chile, the Triodetic Building Products Ltd. framing system is a Canadian-born invention that is still taking the world by storm 40 years later.

Chances are you've heard about one of the architectural projects that have incorporated Triodetic products, such as the Liberace Museum in Las Vegas, the Royal Botanic Gardens in Sydney, Australia, or the John F. Kennedy Library in Boston. But it's the practical solutions to design challenges these projects represent that are capturing the imagination of architects and engineers around the world.

"Foundation frames for buildings on variable soils, such as in freeze-thaw regions, present environmental challenges," says Trevor Smith, Triodetic's Chief Executive Officer. "Our foundations eliminate the need for pile driving and excavation." Triodetic's patented framing system has provided design solutions for foundations in Russia and Alaska, cyclone-resistant glass walls in Haiti, and domed roofs in mosques in Malaysia.

It does this by providing an innovative way to strongly and simply join metal tubes together. Its aluminum joints also allow for almost any three-dimensional geometric arrangement of tubes.

Headquartered in Ottawa, the company now exports more than 60 per cent of its total sales to the United States and to many other countries in Europe and South America.

"With such a broad scope of appeal for this product, we are constantly confronting new applications in challenging locations," Smith says. "For example, bulk material stockpiles at mining sites and ports need to be enclosed to prevent dust pollution. This is a need we can serve well."

Triodetic products provide an innovative alternative for those who want to create buildings with creative geometry and also address energy conservation and environmental issues. "Our products are made from recycled feed materials and all production waste is recycled. As well, completed structures can be disassembled and re-used in new locations and configurations," says William Vangool, Triodetic President and owner.

Building projects that incorporate Triodetic products also create local employment. "All Triodetic structures are assembled onsite, making them ideal for export," explains Smith. "The structures are assembled using hand tools and unskilled labour so language and experience are not a barrier."

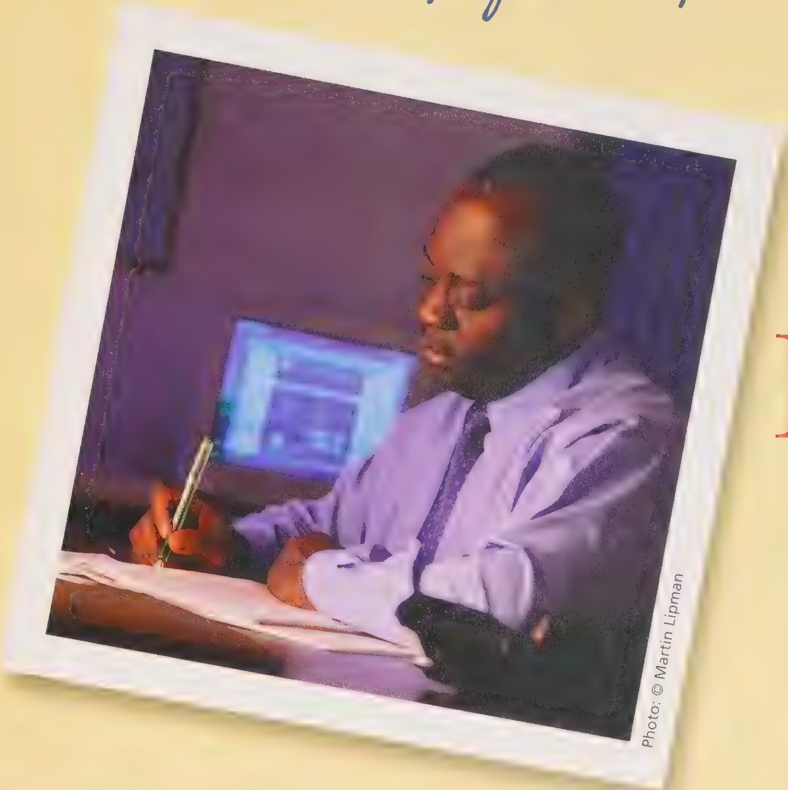
An award-winning company, Triodetic was voted Exporter of the Year in 2001 at the Ottawa Business Achievement Awards, and in 2003, won the TIPTA Award (Toronto Construction Association Innovative Product Technology Award) for its steel and aluminum frame foundation system.

A recent success has been Triodetic's partnership with another award-winning Canadian exporter, ProSlide Technology Inc. "One of the pressures in the amusement park industry is to have the new ride. ProSlide needed a supplier who could offer design expertise and flexibility," says Smith. It's a partnership that keeps on growing. Triodetic has just begun work on its 20th water park project. ■

COMPANY PROFILE

Company: Triodetic Building Products Ltd.
Business: Structural framing systems
Location: Ottawa, Ontario
Established: Early 1960s
Employees: 20
Exports: 60%
Export Markets: Argentina, Australia, Bahamas, Barbados, Chile, Cuba, Egypt, Italy, Puerto Rico, Russia, United States
Contact: www.triodetic.com

Diary of an Exporter, Part 2



Clinotech Branches Out

BY **DENNIS** AND **SANDI JONES**

In Part I of the Diary of an Exporter, we saw how Dr. Harrison Ofiyai founded Clinotech Inc. and established the company as a Canadian exporter of high-quality medical diagnostic kits to Turkey's health system. In late 1998, as it became clear to Dr. Ofiyai that Clinotech was flourishing in this extremely competitive market, he realized that his company's story had only just begun. Here's what happened next…

December 1998

We're shipping Clinotech products to distributors in Turkey! Not samples or evaluation kits, but actual exports!

I was worried about product delivery earlier this year, but the solution was to have our distributors use their own Turkish freight forwarders, who have shipping associates in Vancouver. Between them, the forwarders and shippers handle everything from our loading dock onward. We don't have to get involved at all, which is exactly how I want it. I want to focus on the business and let the experts handle the logistics of shipping.

On the marketing side, I learned that some Turkish hospitals needed products my Canadian manufacturer doesn't make. I had to scramble around a bit but I found two U.S. companies who can supply the products with the price and quality Clinotech demands. Now I have three suppliers, which gives me a margin of security if we run into any problems.

Everything looks good for 1999 – I've been looking at expanding into new markets for some time now. Jordan's my first target and my second is Iran because of the strong business links to other Middle Eastern markets. I'll have to find reliable distributors before I can go ahead, but fortunately I know people in both countries and can use them as contacts.

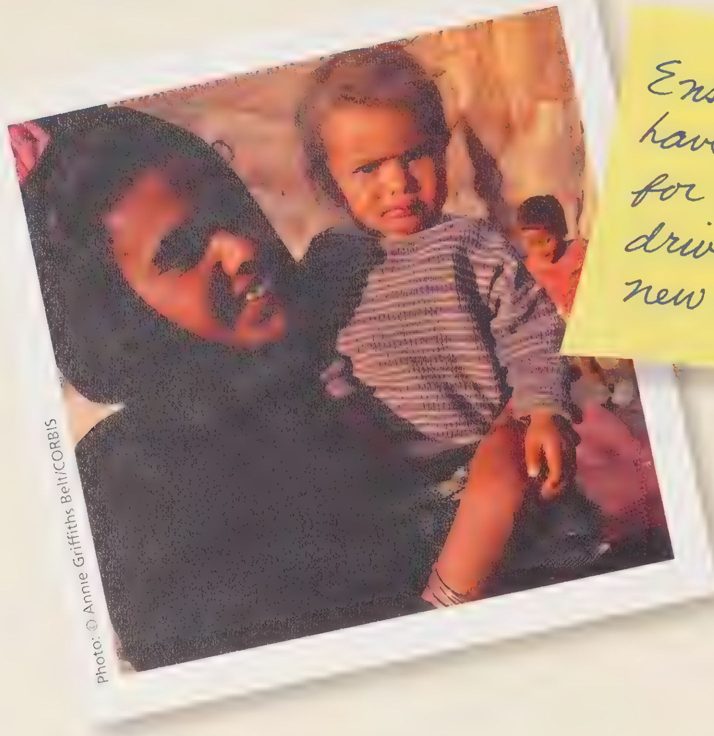


Photo: © Annie Griffiths Belt/CORBIS

Ensuring families have access to tools for detecting diseases drives our growth into new markets.

Early 1999

My approach to finding distributors is working well. I've used it in Jordan and Iran and am now using it Greece, Cyprus, Bulgaria, Azerbaijan and Syria. I ask my contacts to identify the medical suppliers for the local hospitals, then use that information to get a company profile of the supplier. If the profile checks out, I send them a list of Clinotech's products and ask for a business plan showing how they'd handle distribution — who the competitors are, how they'd set prices, what volumes they'd need, etc. After that, I send sample kits for evaluation, get feedback and take it from there.

I owe a lot to my doctor friends in this part of the world. Without that network, building my business would be much more difficult, if not impossible.

Summer 1999

We've been making shipments to Jordan, Syria and Iran for a few months now. We're so busy that I can't be everywhere and do everything myself, so I'm looking for some local representatives. I need business people with a solid scientific background who are willing to work part-time.

One of their first jobs will be to find more distributors because I don't want to be tied to one distributor in any one market. They can confirm that the distributors have the resources they say they do and attend medical trade shows on Clinotech's behalf. I'll ask my network for recommendations.

Late 1999

I've hired some excellent local representatives in Jordan, Iran, Syria and Azerbaijan. I also went to the medical trade fair in Turkey to support my distributors. That worked well, because other international companies often leave it all up to their distributors. I think it's important to be there to represent Clinotech so that I can talk to the doctors, buying agents and to the market's opinion leaders. I made sure I answered all their technical questions, which was valuable to them and to me. In this part of the world where relationships are so important, being there in person is essential. It shows your distributors that they have your support and your customers that servicing them is of paramount importance to you.

On the logistics side, I've been lucky that I've had no trouble with permits and customs in any of the countries where I'm doing business. That's because I've made sure the distributors had health ministry approvals and the proper certificates for our goods before they placed their orders. It's this kind of attention to detail that pays off.

Early 2000

We're really busy. We now have representatives and distributors in Saudi Arabia and Kuwait. People obviously think well of Clinotech, because a few distributors we've never even worked with are trying to place orders with us. We've told them that they first need to do product evaluations to establish market acceptance before we'll let them distribute Clinotech kits. That's part of building the reputation I want

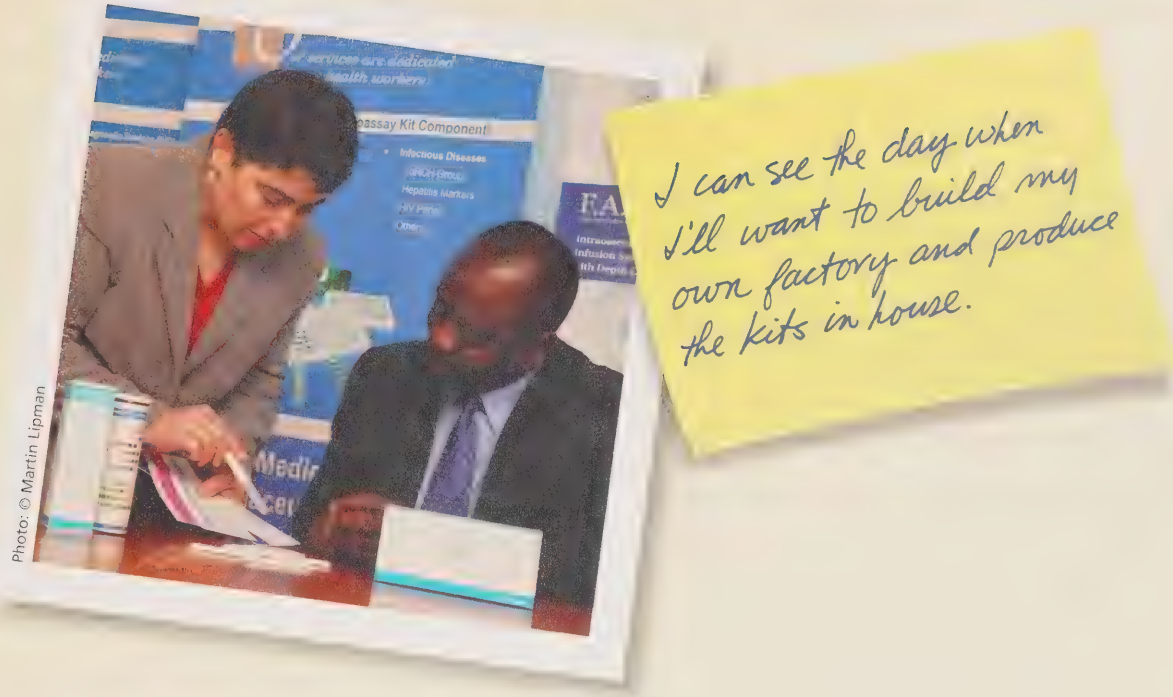


Photo: © Martin Lipman

for the company – consistent, reliable service, with excellent after-sales support and built on a solid scientific background.

We also got our web site up and running. We've kept it simple and added elements such as giving potential distributors a Customer Profile Information section where they can tell us about themselves. This will help us evaluate their status and also identify any weaknesses, so that we can work them out as we build our business relationship.

Spring 2000

I couldn't attend the International Medical Care Exhibition in Dubai in late January, but we had a Clinotech representative there. I'm sure we'll get some business out of it.

I'm still thinking about Clinotech's production side. I can see the day when I'll want to build my own factory and produce the kits in-house. Now that I know there's a broad market for Clinotech products, that's not such a far-fetched idea.

Summer 2000

We now have two Canadian staff members to deal with invoices, shipping, freight forwarders and other non-technical customer service. Senay is overseeing them to make sure things are coordinated. She's also dealing with our contract manufacturers to help them meet the rigorous technical specifications we insist on.

I'm still overseas a lot. In this business – or in any export business, I guess – you have to constantly be there. That's important, because there are new companies and suppliers appearing every year, and you have to make sure your distributors and customers know you're behind them. Otherwise, they could start talking to someone else. Even in Turkey, where we're well established, I keep reminding people about Clinotech – I keep the advertisements going, I make sure our distributors attend both the local trade shows and the international trade shows, and I always make sure they have the latest company information.

Fall 2000

Two years in business now, and Clinotech is still growing. I'm looking at even more markets, and the company's being approached by a lot of potential distributors. The upward trend is clear and I'm pretty convinced that manufacturing our own products will have to be part of Clinotech's future, especially now that sales volumes are starting to justify in-house production. That may not happen for a year or two, but it's certainly on the horizon! ■

Stay tuned for Part 3 of Diary of an Exporter, *coming in our Summer Issue. To learn more about Clinotech, visit www.clinotech.com.*

Small Business Perspectives

Extending Credit to Foreign Buyers

Balancing Risk with Reward

BY **SALLY ENRIGHT**

You are negotiating a first-time deal with a buyer in Brazil who is demanding extended payment terms. You're worried about the size of the transaction and the financial consequences if your buyer doesn't pay. Do you ask for payment upfront or give 60-day terms? Is a letter of credit in order? How do you remain competitive while protecting yourself from bad debt?

Extending credit can be an effective tool in helping exporters expand their business into new markets or negotiate larger deals. Here's what all Canadian exporters should know before they negotiate payment terms with foreign buyers.

Is there a formula for determining what payment terms to give?

Payment terms have to balance the level of risk involved with your need for immediate cash flow. "If it's a first-time buyer, many exporters will ask for full or partial payment upfront," says Jennifer Sweezie, Underwriter, EDC's Emerging Exporters Team. This can make it harder to win business, but more generous terms can then be set up after a positive payment history has been established. "Still, it is important to be cautious because even if the buyer has the best of intentions, something outside of their control such as a sudden economic downturn can cause them to fail on their payments."

What's more important in closing the deal: selling price or payment terms?

Creditworthy companies, accustomed to buying on generous open account terms, often expect 90 days and sometimes exporters must agree to those terms to compete. "It is important to have a credit policy that takes into account all of the variables required to be profitable in foreign markets," explains Geoff Wilkinson, General Manager, Credit Institute of Canada. "If a credit policy is too restrictive, it can inhibit sales. Likewise, if a credit policy is too liberal, profits may decline due to financing overdue receivables and bad debt write-offs."

How much protection do letters of credit provide?

A letter of credit can be considered zero risk, but you must do your homework. If it is not confirmed by a Canadian bank, then the quality of assurance is only as good as the foreign bank that issued it. The exporter must also be able to meet all of the documentary requirements of the letter of credit.

How do I check my buyer's credit?

Always obtain trade references and get a credit report before you ship. Talk to other suppliers to find out if your buyer pays on time. Commercial credit reports are now readily available online through services such as EDC's EXPORT *Check*. "Exporters can access the financial information and payment history of 15 million companies around the world," adds Sweezie. "If EDC's Accounts Receivable Insurance is needed, it can often be set up within 24 hours."

How do I assess the level of risk?

Even in the safest markets, the risk of commercial factors such as a new competitor or your buyer not being paid by its customers can impact its ability to pay you. Assess your buyer using information such as their company's financial profile, years in business, payment history and references.

Should I accept payment by credit card?

Credit card payments can carry a significant risk as almost any credit cardholder who accepts the transaction can later have the charges reversed. An exporter could be paid through a credit card, ship the products and then three weeks later have the money taken back out of the account at the request of the cardholder.

Is it safe to export to developing markets?

While developing markets such as Brazil, China and India represent some of the fastest growing and most lucrative export opportunities, there are significant risks in today's global business climate. Political instability can create uncertainty when considering business opportunities in developing markets. Corruption or weakness in legal systems can make it difficult for you to collect money owed if your buyer decides not to pay. Your best protection is to insure your receivables against non-payment.

Where can I find out more about managing and extending credit?

"Exporters can learn more about best practices from the Credit Institute of Canada and achieve their FCI designation," says Wilkinson. "Its mission is to promote credit management training in Canada," he explains. "And with our changing global economy, an increasing number of members are looking to us for economic information so that they can better understand world markets and international credit." ■

The four C's of credit:

How much credit should you extend to a foreign buyer? Before you negotiate credit terms, assess the buyer using the four C's of credit management:

- **Conditions of business.** Is the company profitable and growing?
- **Character.** Does the company pay on time and treat suppliers fairly?
- **Capacity to repay.** Financial performance? Is the company liquid?
- **Collateral.** Does the company have available assets in the event of bankruptcy?

Credit terms at a glance:

- **Irrevocable Letter of Credit:** Assurance of funds issued by a bank that cannot be cancelled or amended without the beneficiary's approval.
- **Open Account:** Arrangement whereby sales are made with no formal contract. The buyer pays according to the terms of the invoice, i.e. net 30 days, net 60 days, etc.
- **Prepayment:** Partial good faith payment received in advance of shipping (generally not desired by buyers).
- **EDC's Accounts Receivable Insurance:** Covers up to 90 per cent of a loss due to non-payment and default.
- **EDC's EXPORT *Check*:** Online access to the credit profiles of 15 million companies in 100 markets.

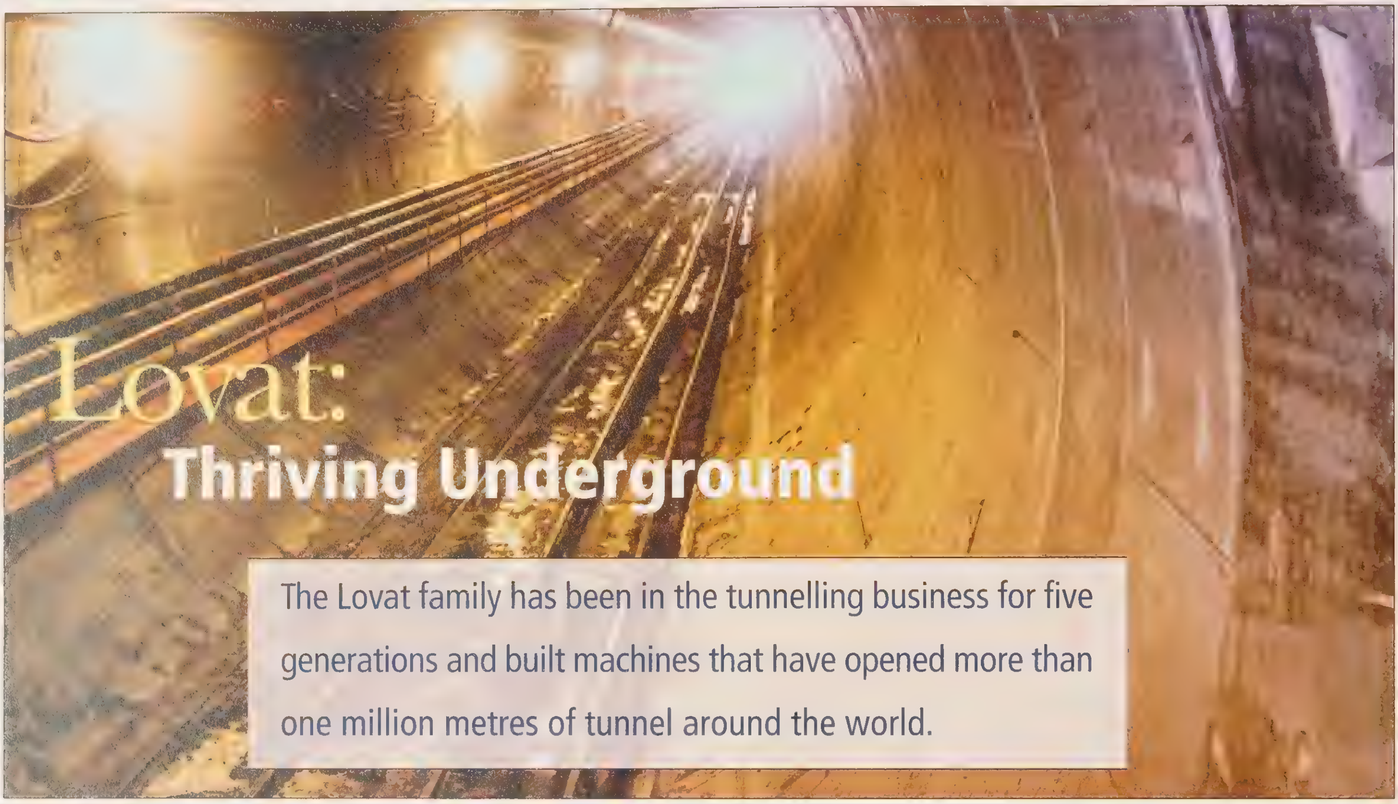


Photo: Courtesy of Lovat Inc.

Lovat: Thriving Underground

The Lovat family has been in the tunnelling business for five generations and built machines that have opened more than one million metres of tunnel around the world.

Rick Lovat, President and Chief Executive Officer of Lovat Inc., is enthusiastic about future opportunities in the subterranean world. "Tunnels are essential in the development of any city, of any rail system, of any motorway," he says. "If you think about what's underneath a city, it's just as complicated as what's above. Fresh water, waste water, subways, cables – it's a bees' nest down there."

Toronto-based Lovat is a world-leading manufacturer of machines that safely and efficiently chew through rock, sand and other subsurface material to make tunnels up to 14 metres in diameter. The company was founded in 1972 by Rick's father, Richard Lovat, a pioneer in mechanizing what had been a dirty, slow and dangerous job.

The senior Lovat, now company Chairperson, made his first international sale in Italy, the country he emigrated from in 1951. More sales followed in Western Europe and the United States.

"The challenges in the 1970s and 1980s were more technical than commercial," Rick Lovat says. "We had a mousetrap people wanted, so they were prepared to pay for it on our terms."

But by the mid-1980s, competition was stiffening from German and Japanese companies, requiring Lovat to improve its commercial and financial game. The point was driven home in 1985 when an Italian bank delayed payment for months on a letter of credit after delivery of a machine. The episode led Lovat to add internal and external financial expertise.

"We realized the commercial part of the business needs the same level of sophistication and professionalism that we have as engineers," Lovat says. "A key to staying ahead of the competition is responding promptly to customer needs even if it means rushing a spare part or a technician to a valued client and worrying about payment later."

With almost 220 machines delivered worldwide, Lovat is still tunnelling through to new opportunities, including in Russia, Eastern Europe and China. Russia is already a major market thanks to determined development efforts dating back to the Soviet days. The company has delivered 14 machines to that country.

Lovat recently teamed up with EDC on an innovative deal to supply a large machine to cut a railway tunnel in central Siberia. Because Lovat's customer earns only rubles, EDC preferred to provide credit to a regional bank that in turn financed the Russian company to buy Lovat's machine.

EDC also worked with the Royal Bank of Canada to guarantee 50 per cent of a pre-shipment line of credit during the year it took to build the machine.

"Like most lenders around the world, we retreated from the Russian market after the financial crisis of the late 1990s," says Francine Clément, EDC Financial Services Manager, Advanced Technology and Manufacturing Team. "We decided conditions had improved sufficiently for us to go back into the market and it's proven to be really exciting." ■

COMPANY PROFILE

Company: Lovat Inc.
Business: Designs and manufactures tunnel boring machines
Location: Toronto, Ontario
Established: 1972
Employees: 240
Exports: 98%
Export Markets: North America, Western Europe, Russia
Contact: www.lovat.com

Computer Animation: A Canadian Sensation

BY **DENNIS** AND **SANDI JONES**

When a film company in India needs leading-edge software for its new animation project, where does it look? Or if China wants advice on nurturing the creative side of its animation industry, whom does it consult? The answer has to be the United States, right? Not at all. It's Canada.

Opening credits

Canada, perhaps surprisingly in view of its small population, has a worldwide reputation for the excellence of its computer animation industry — not only for animated films and television programs, but also for the advanced software used to create six Oscar®-winning animation productions.

In export terms, this is significant. "Foreign sales of Canadian animation software licences are growing," says Robi Roncarelli, President of Pixel: The Computer Animation News People Inc., which monitors the world computer animation industry. "We estimate that the total value of these licences in 2002 was US$68.3 million, and that in 2003 it had climbed to US$79.9 million. We also estimate that the total export value of Canadian animated productions averages out to US$125 to $135 million per year."

Animation software technology and animation productions, then, are the two key exports of the sector. But our success didn't happen overnight; while Canadian filmmakers have been exploring computer animation since the 1970s, their work in traditional animation goes back much farther than that, thanks largely to the National Film Board of Canada (NFB).

Enter the NFB

No sketch of Canada's computer animation history could be complete without mentioning the enormous influence and contribution of the NFB. Founded by the Mackenzie King government in 1939 and led during its early days by John Grierson, the NFB produced masterful work right from the start, winning its first Oscar in 1941. In the same year, Grierson hired the now-legendary Norman McLaren, who founded the NFB's animation department.

"The NFB has a lot to thank Grierson for, including Norman McLaren," says Laurie Jones, the NFB's Director General, Communications and Outreach Development. "It was McLaren's innovation and experimentation that really created the animation industry in Canada. He worked with a lot of young filmmakers and helped make the NFB a seedbed of creativity from its very beginning."

The NFB and the National Research Council also collaborated in developing Canadian computer animation. The potential of this was first shown in the NFB's 1971 production of the experimental film *Metadata* and, in 1974, by *Hunger/La Faim*, the first computer-animated film ever to receive an Oscar® nomination.

Focusing on talent

Since then, Canadian software firms such as Toon Boom Animation, Alias and Side Effects Software have developed much of the technology used in the world's animation industry. Moreover, Canada is home to important animated-film production companies such as Nelvana, Mainframe Entertainment and C.O.R.E. Digital Pictures.

Canada is also important in the U.S.-dominated feature film industry, observes Scott Dyer, Nelvana's Executive Vice-President of Production and Development. "While the industry is centred in Los Angeles," says Dyer, "we've seen significant feature-film work come to Canada to use the talent that's here. Our computer animation industry is a very important contributor to Canada, from both an economic and a cultural point of view."

Canada's strength on the world animation stage is due to the country's top-notch talent base, developed and nurtured by the industry, by our educational institutions and by the NFB's long tradition of working with young filmmakers. These factors, plus our technological strength, make a combination that's hard to beat.

STRENGTHS

Star power: Technology, taxes and treaties

One important contributor to Canada's strength on the world animation stage is the country's top-notch talent base, developed and nurtured by the industry, by our educational institutions and by the NFB's long tradition of working with young filmmakers. These factors, plus our technological strength, make a combination that's hard to beat.

"No other country comes close in terms of software capability," says Dyer. "Added to that is our large pool of advanced creative and technical talent. Schools like the University of Waterloo produce excellent computer scientists and others, like Sheridan Institute, produce some of the world's best animators."

Another advantage has been the weakness of the Canadian dollar relative to the American, although much of that edge had slipped away by early 2005. However, support for the industry by provincial governments remains strong: tax credits to encourage domestic film production range from 30 to 40 per cent, depending on the province.

Canada's co-production treaties with countries such as Britain, China, France and Germany are a further advantage. These treaties, negotiated by Telefilm Canada, the federal agency that promotes Canada's film, television and music industries, encourage international pooling of resources. They also allow films that are co-produced with another country to qualify as local content in Canada, which makes these films eligible for significant Canadian tax credits. These agreements (there are more than 50 of them) are very important to Canadian production companies because they reduce risk and provide access to a great diversity of talent. Moreover, they give us an edge over the United States, which is not currently a party to any co-production treaties.

Joan Vogelesang, President and Chief Executive Officer of Toon Boom Animation Inc., sees further strength in Canada's technological expertise and in our ability to create quality content. She feels that we have an edge, as well, in our cultural adaptability. "We're very good at international business because we're comfortable in other countries," she says. "We're an exporting nation, which means we have to be adept at dealing with different cultures. That helps us a lot when we're working with them to build their animation industries."

Coming soon: New talent

The long-term strength of the sector in Canada depends, of course, on maintaining a deep pool of creative and technical talent. Canada's animation schools and programs are crucial to this, and their importance is recognized in the government support they receive, observes Dr. Michael Collins, Dean of the School of Animation, Arts and Design at Ontario's Sheridan Institute of Technology and Advanced Learning. "Governments underwrite 50 to 60 per cent of our student costs," he points out. "Perhaps more, because they provide all the capital for the buildings and the equipment. Operating grants are around 50 to 60 per cent and the capital grants are significant. That applies across the country, to any school that's teaching animation."

Such investment has paid off both at home and abroad. "A lot of our former students have become significant players in the computer animation industry," says Dr. Collins. "C.O.R.E. Digital Pictures in Toronto employs about 400 people, many of whom are Sheridan graduates. Another of our strengths has been the success of our graduates in other markets, particularly in the United States. The chief storyboard person for the recent animated feature *Shark Tale*, for example, was a Sheridan graduate."

All of which shows how prominent Canada has become in this international industry. But are there areas where we're vulnerable?

WEAKNESSES

Mixed reviews: Competitiveness

We've already mentioned that the strengthening Canadian dollar has hurt Canada's competitiveness in the animation sector. Another financial issue is that while our tax credit system makes it easier to finance production, the qualifications for the tax benefits are somewhat complex. This can make foreign producers shy away from Canada because they're not sure how to fit their production into Canadian rules.

Nelvana's Scott Dyer has encountered another problem with maintaining our competitive edge: the leakage of talented people to the United States. "We regularly lose recent graduates," he says. "Although they often come back once they have a family, they're not here when we need them. It's a weakness, and one cause for it is Canada's lack of a domestic feature-film industry. If we had a true domestic-feature policy, and if the rules to finance feature films were more aggressive, that might keep more people at home. As it is, they go south to work on *Spider-Man*."

Another competitive weakness, in Joan Vogelesang's view, is the sector's reliance on co-production treaties and tax credits. She notes, for example, that the industry finds Canadian software engineers to be competitive even when measured against those in a cheaper labour market such as India's – but only because Canadian tax incentives make this possible. "If those incentives ever end," says Vogelesang, "we may have a big problem remaining competitive. So I'd like to see Canada's animation industry become more self-sustaining."

To remain competitive, Canadian companies must:

- Create opportunities for Canadian talent
- Continue to produce high-quality animation
- Continue to invest in training and development both in the art of animation and in technical expertise
- Partner with developing markets to sell Canadian technology and expertise

Ups and downs: When the plot doesn't thicken

Another issue, adds Dr. Collins, is the cyclical nature of the industry. "If there are several big projects, there's lots of work. But if there aren't, then graduating students have to compete with people who have been laid off. Moreover, we've gone through a downsizing in animation during the past few years as traditional production has come up against digital processes. And the money for large projects often comes from the United States or other foreign sources, so in some ways we end up as a service to other originators."

For his part, Nelvana's Scott Dyer hopes to see more animation schools and programs established, but is a little concerned about creativity taking second place to technical expertise. "I don't want us to get away from the central art of animation, which is an art," he cautions. "It shouldn't ever be reduced to the ability to operate a 3D workstation, because that cheapens what we produce. We have to begin with great artists and then train them to use the media. We shouldn't take users of the media and try to train them to be great artists."

China and India: Unmet demands

China needs almost 250,000 animation professionals, but its educational system produces only 300 graduates per year. India has 5,000 animation professionals and could use 30,000. These two markets, consequently, hold vast promise for the Canadian animation industry, which can help provide the training and technology these countries need.

A studio far, far away: Canada's opportunities abroad

However, the industry's domestic weak spots would seem to be much outweighed by the opportunities abroad. Because of Canada's enormous international stature in animation, countries wanting to advance their own industries often turn to us for help. The NFB, with 67 Oscar nominations since it was founded, is often among their first stops.

"The NFB's animation department has always been willing to experiment, which means that Canadian short animated productions are prized in festivals around the world," says the NFB's Laurie Jones. "So China and Korea are interested in obtaining our help with encouraging creativity and innovation in their animation industries. These industries are very well developed, but aren't based on some of the creative imperatives we have here, so they're looking for ways to incubate those values."

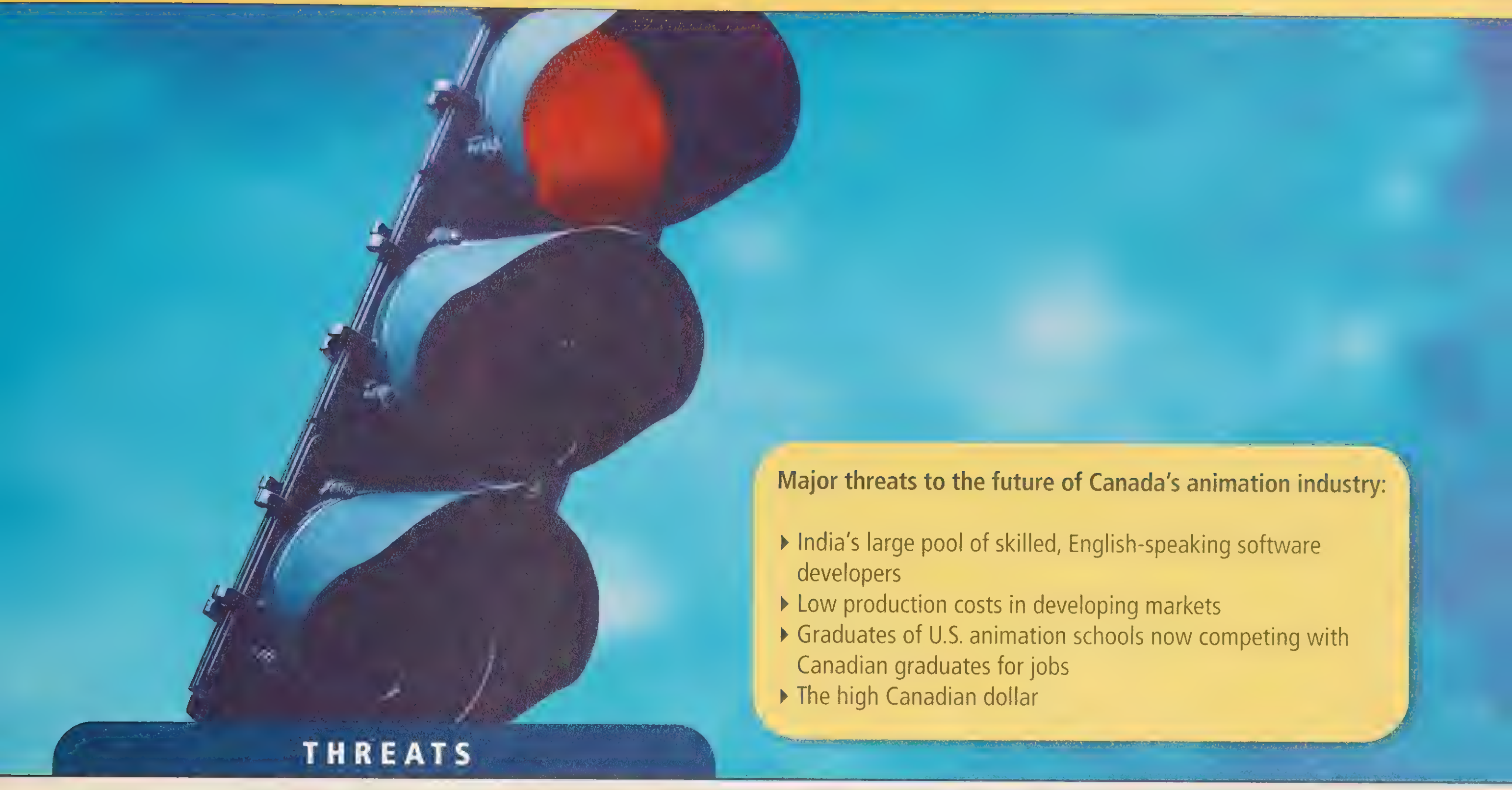
Other opportunities abound in the worldwide growth of animated film production, with domestic industries burgeoning in countries like China, Korea, India, Malaysia, the Philippines and Taiwan. Productions from these countries are now beginning to appear on domestic television in North America, which is beginning to give us a larger perspective on what animation can do, both artistically and technologically. And because so much animation is now digital, it can be moved effortlessly from one place to another via the Internet, which means that a Canadian company can work seamlessly with a partner on the far side of the world.

Dissolve to: Canada as a world animation leader

"There are real opportunities for Canada to continue dominating this industry," says Scott Dyer. "If we want to go in this direction, though, we shouldn't regard countries like China and India just as service partners, but rather as true partners with whom we can produce work that can be exploited in their markets as well as in ours. Getting the relationships right with such countries can provide Canada with access to the enormous consumer marketplaces that are emerging abroad."

From this perspective, the most productive approach might be for Canada to help countries such as China and the Philippines obtain the best technology and develop their own creative talent, which would allow them to produce high-quality results for their domestic market and for international markets as well. Toon Boom is following this strategy, as is shown by the company's work with studios in the Far East to help them develop their local animation sectors. One very positive result of this, notes Joan Vogelesang, has been Central China Television's decision to standardize on Toon Boom's animation technology for its productions.

Such opportunities are beginning to emerge all over the Far East. In China alone, 25 per cent of the population is considered middle-class, with disposable incomes and an appetite for entertainment. Such a demand translates into an enormous potential market for the Canadian animation industry.



Major threats to the future of Canada's animation industry:

- India's large pool of skilled, English-speaking software developers
- Low production costs in developing markets
- Graduates of U.S. animation schools now competing with Canadian graduates for jobs
- The high Canadian dollar

Cut to the chase: Here's the competition

These foreign opportunities, though, can have a threatening side. India, for example, could become a major competitor for Canada's overseas animation markets as its creative and technology base expands and improves. Its schools train vast numbers of very capable software developers, and it also has a special advantage over other potential competitors such as China – the Indian labour pool speaks English. "Moreover," observes Scott Dyer, "it's almost exactly 12 hours away from Canada, so it's a perfect overnight studio. So, while our creative dominance in animation doesn't have to diminish, we're going to see more of our work outsourced to partners abroad. But the way to react to this is partnership, not protectionism."

There will always, of course, be a threat from countries that can do animation more cheaply than Canada. At the moment, however, says Joan Vogelesang, "They don't have the creative power to be a threat. But there's a lot that needs to be done between the creative beginning and the final product, and they can do those things very well." In other words, while we enjoy an edge at the moment, we may lose it if we make the mistake of resting on our laurels.

Another long-term threat may come from the United States, seeded in part by the establishment of animation schools there. "The Savannah College of Art and Design has grown rapidly in the past decade," says Dr. Collins, "and they have many animation graduates who will, obviously, look for jobs in the U.S. That will hurt Canadians who want to go south." Collins also senses a cultural threat from countries with populations much larger than ours; because they tend to be the more profitable markets, they may narrow the range of what Canadian animators can afford to produce. This could make it more difficult to create truly Canadian works.

Cunning plans: Outwitting outsourcing

Although Canada's animation fortunes remain on the rise, there's a sense in the industry that our ascent may be levelling off. One way to preserve its upward momentum may be for Canadian companies to help develop other countries' animation sectors, thus creating new markets for our advanced technology. On the production side, expanding local demand for content will further stimulate the appetite for Canadian tools and expertise.

As for the pressure on Canadian companies to outsource the less creative side of their work, there are things we can do to reduce this threat. One is to produce animation of a quality that can't be matched by lower-cost, foreign companies. With our resources of talent and technology, this is certainly a viable option; moreover, since the highly creative jobs are not normally the ones that are outsourced, making these a focus of our efforts will certainly pay off in the long run.

At the same time, says Scott Dyer, "We shouldn't be asking if we can get our animation done more cheaply in India; we should be asking how we can partner with an Indian producer to create shows that qualify for local content in both countries. Having a foot in the door in these emerging economies will give us huge opportunities there."

Another strategy for coping with outsourcing is to introduce technologies that are less labour-intensive, allowing jobs to stay in Canada. Toon Boom, notes Joan Vogelesang, is following this path, developing software that will be highly cost-effective because it allows the production process to use fewer people.

As of February 2005, the NFB can add another Oscar® to its long list of honours. The groundbreaking film *Ryan*, written and directed by Chris Landreth and co-produced by the NFB and Copper Heart Entertainment, with the participation of animation students from Seneca College, won the coveted award for the best animated short. It examines the life and career of the brilliant Canadian animator Ryan Larkin, an Oscar® nominee whose great promise has become a nightmare of living on the streets.

No fade to black: Canada's future in animation

There are other ways to react constructively to the challenges facing the industry. The federal and provincial governments can adjust tax policies to encourage production and keep jobs in Canada. They can also help software companies with product development, again through innovative tax approaches and through supporting animation research at universities and other institutions.

More advanced education is also crucial, says Dr. Collins. "The schools are doing a good job, but more institutions should be offering applied degrees in animation. Such programs encourage students to think originally; they won't be trained simply as animators, but will work with a broader scope of story development. That's important for the industry because it will help Canadian animators focus on developing new properties, and that will give them the edge they'll need during the next couple of decades."

Finally, says Nelvana's Scott Dyer, "One of the characteristics of Canadians is that we don't blow our own horns. We should call attention to Canada's dominance in computer animation and use it as a mechanism to gain entry to other markets and to create new partnerships. We need to recognize our enormous accomplishments and build on them to maintain the leadership we've had for more than half a century."

And if we do that, the odds are good that our achievements of the past 50 years will turn out to be the foundation of another half-century of Canadian creativity, achievement and success. ■

Our experts

For this article, we consulted four experts in the Canadian animation industry, representing the parts played by film and television producers, software developers, educators and governments.

Joan Vogelesang
President and Chief Executive Officer
Toon Boom Animation Inc.
www.toonboom.com

Scott Dyer
Executive Vice-President of Production and Development
Nelvana Limited
www.nelvana.com

Dr. Michael Collins
Dean, School of Animation, Arts and Design
Sheridan Institute of Technology & Advanced Learning
www.sheridaninstitute.ca

Laurie Jones
Director General, Communications and Outreach Development
National Film Board of Canada
www.nfb.ca

Beyond NAFTA


Photo: Courtesy of Ali Borhani

BY **ALI BORHANI**

These days reading an international publication such as the *Financial Times* or *The Economist* provides a stark and alarming reminder of the fast-paced changes in global markets. While the urgency to pay attention to these changes is paramount for Canada, the alarm bells sound much louder in other parts of the world than they do here.

For many of us, the notion that we are a nation of traders is part of our psyche. However, the simple fact is that 87 per cent of our exports are bound for one single market, the United States, which invites us to reconsider our current strategy.

At this time:

- Foreign direct investment into Canada has fallen dramatically, down almost three-quarters from their levels only one year ago.

- Canada is the largest supplier of energy to the United States, even above Saudi Arabia. This is an important card, which has to be better played in our bilateral trade relationship with the United States.

- Our economies are interdependent. Unfortunately Canada's role is not aggressively lobbied or generally recognized by the U.S. government or by the American public. We need to stress that our mutual interdependence is a two-way street in which Canada is not the only beneficiary.

The recent challenges on beef and softwood lumber exports highlight the importance of diversification. Many developing markets and oil producing countries are booming due to the rise in energy prices. These countries have ample appetite to reinvest these oil revenues in new equipment, technology, infrastructure and services for their fast growing populations. It is up to us to establish our presence in these markets before it is too late.

A review of the *Fifth Annual Report on Canada's State of Trade, Trade Update 2004* is a testament to the need for urgent change. The report paints a chilling picture of dramatically falling exports to the United States, including a drop of $9.1 billion or 9.4 per cent in auto parts. This is happening simultaneously with a drop in the American dollar, which makes the picture even more challenging for Canada. When you consider that almost 45 per cent of Canada's gross domestic product (GDP) relies on Ontario's economy – and at the same time Ontario's economy is also heavily dependent on the auto sector for its own GDP – it's not much of a stretch to see where we should be focusing our efforts.

Today, no company large or small is immune to the predicaments faced due to the ongoing changes affecting the past and established paradigms. For instance, Canada's vulnerabilities are clear in the recent problems that Canadian companies in the aerospace industry face due to their predominant exposure in the U.S. market. When American airlines withhold or cancel some of their orders, Canadian companies have to deal with the loss of jobs and production capacity.

This is not only a challenge in the aerospace industry, but a major challenge for Canadian companies of all sizes who have focused heavily on the U.S market. Bombardier, for example, is successfully selling its Q Series aircrafts in New Zealand, demonstrating that there is a growing need and demand for Canadian technology and products beyond NAFTA.

Canada has a unique brand and positive foreign relations with most of the world. Indeed, it is time to capitalize on this receptive climate and tap into new markets where our technology, products, services and solutions are not only welcomed but can compete with the rest of the world.

All it takes is for us to wake up and look beyond NAFTA. ■

Ali Borhani is the President of Noramid Corp. He can be reached at (905) 709-7155.

The Gulf Cooperation Council

Refining Endless Growth

BY TERRI-SUE BUCHANAN

As a Canadian exporter of goods and services, markets such as China, India and South America often come to mind. But there is a huge developing market with enormous potential for growth that is becoming top of mind for many Canadian companies.

"Since the last downturn in oil prices, the GCC countries have realized that they need to protect their economies by diversifying and they see Canada as a key partner in a lot of these deals."

– **Mark Eyking**
Parliamentary Secretary to the Minister of International Trade

Within the Middle East, there exists an important regional organization that groups together six countries: the Gulf Cooperation Council (GCC). Established in 1981 to promote stability and economic co-operation, the GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). All of these countries, in varying degrees, are blessed with vast oil and gas reserves.

Thanks to the last 30 years of oil exports, rapid modernization of the GCC economies has been possible. And while this region contains more than one-half of the world's oil reserves and about 45 per cent of its natural gas reserves, the drop in oil prices in 1998-99 highlighted the need to diversify.

Unprecedented opportunities

With the more recent rise in oil prices, the GCC is experiencing a period of unparalleled richness and there is an eagerness to spend this money to realize their goal of economic diversification. As a result, there is a unique window of opportunity for Canadian business.

In addition to huge energy development projects, within the next five years the GCC countries will have substantial infrastructure requirements. Sectors of opportunity vary by country but generally include oil and gas, water purification and construction of airports, mass transit systems, ports, luxury hotels and hospitals.

Canadian exports to the region are gaining momentum; exports to the GCC as a whole reached $995 million in 2003 – larger than exports to Brazil – and grew to $1.3 billion in 2004.

However, Canada's market share to this region is low when compared to our success in other regions such as Europe, Asia and the United States, so clearly Canada has the capacity to grow exports to the GCC.

The GCC as a developing market

There are numerous opportunities for Canadian companies to establish a significant presence in the region, but three countries in particular – UAE, Qatar and Oman – hold the most potential, says Dwain Lingenfelter, Chairman and Chief Executive Officer of the Canada-Arab Business Council and Vice-President of Nexen Inc.

"You only need to use your imagination when you think of a rapidly expanding economy and all the goods and services and the infrastructures that go along with that. Whether it's computers or the construction of buildings and traditional infrastructures around tourism, this region is open for business," says Lingenfelter.

There are also many opportunities in the oil and gas sector but that's just the tip of the iceberg. "Companies that work in the oil and gas or engineering sectors use many small contractors or subtrades, so it's important for Canada's small- and medium-sized businesses to realize that this is not just a game for the big guys. There is diverse opportunities for providers of everything from training and education to legal advice, to name just a few."

This is clearly a region of great potential, says Mark Eyking, Parliamentary Secretary to the Minister of International Trade. "Since the last downturn in oil prices, the GCC countries have realized that they need to protect their economies by diversifying and they see Canada as a key partner in a lot of these deals."

As well, Eyking adds, Canada gained respect for the manner in which it handled our involvement in the Iraq crisis, putting us in a much more favourable light.

Patience pays

"To be successful, exporters must be prepared to focus on building relationships and trust," says Ihab Tadros, EDC's Regional Manager of International Markets. "Economic and political factors equally influence purchasing power in this region, and business people do not like an 'in-and-out' method of doing business. Success requires presence; people on-the-ground, a true commitment and of course, patience."

However, this region is not without its challenges. "While we are optimistic and in fact bullish on the area, you must realize that if you go in for two days or as part of one trade mission, you are not going to come out with a contract," adds Lingenfelter.

"The key to this market is understanding that it often takes numerous business trips to build a relationship before a contract is forthcoming. It takes time and a certain financial investment."

Stable and safe environment

While there is a lingering misconception of political instability in this part of the world, experts agree that the GCC – and more specifically Oman, Qatar and the UAE – is a very stable and safe environment for conducting business. Despite the situation of some other countries in the Middle East, this region is stable with living conditions comparable to that of Canada. There is a significant expatriate community living in each country, a well-developed infrastructure and beautiful beaches.

Having said that, like any market, there are certain political risks that should be noted, such as vulnerabilities faced by pro-Western Gulf States as a result of regional security issues, says Susanna Sottimano, EDC's Political Risk Analyst.

United Arab Emirates: Engineering Prosperity

From luxury hotels to airport expansions, the United Arab Emirates serve up a myriad of opportunities for Canadian businesses willing to engineer their talents in these diverse markets.

Photo: © Massimo Listri/CORBIS

The UAE is a federation of seven distinct emirates – Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Ras Al-Khaimah, and Umm Al-Qaiwain. The two largest emirates, Abu Dhabi and Dubai, provide more than 80 per cent of the UAE's income. Political power is concentrated in Abu Dhabi, which controls the vast majority of the economic and resource wealth, while Dubai is the financial and tourism capital.

At one time an underdeveloped area, by 1985 the UAE had one of the highest per capita incomes in the world. The immense wealth has been invested in capital improvements and social services in all seven of the emirates. The UAE has been a member of the World Trade Organization since 1995, and has one of the most open economies in the region.

"This country has shown the way (in the region)," says Canada-Arab Business Council Director General Richard Mann. "This is a well-developed economy open to foreign investment and there are many Canadian players currently working there. This is the place where virtually any firm can go because there is a market for just about anything. And with 6,000 Canadians currently living there, the country is looking to increase travel to and from Canada."

Looking to diversify its economy away from oil exportation, the UAE is especially interested in seeing the development of industries which would reduce its dependence on imported goods, as well as developing product lines for export.

In order to develop this expertise, the government has invested heavily in sectors such as aluminum production, aviation and telecommunications. The UAE is also attracting tourist dollars by positioning itself as *the* tourism and recreation destination for the region by investing in leisure activities such as golf.

As part of this strategy, the UAE is building new hotels, restaurants and shopping centres, and expanding airports and duty-free zones to attract and retain the increasing number of business and consumer travellers to the region. This influx is also creating a demand for office space and retail services. Given this building boom, significant opportunities exist for Canadian construction and engineering expertise.

Big drawing cards at the moment include opportunities in Dubai, such as The Palm project, a major tourism development involving the creation of the world's two largest man-made islands. Other developments with potential for Canadian suppliers include the Jebel Ali Port expansion, the Dubai Railway Project and the Dubai Healthcare City, a plan to transform Dubai into a global hub for specialized healthcare.

The growing economy, and advances in education, health care and housing has also meant increased requirements for power, water supply and modern telecommunications. Environmental and desalination (production of fresh water by removing salt from seawater) expertise will also be required.

Developments in Abu Dhabi with huge potential for Canadian suppliers include opportunities through Abu Dhabi National Oil Company and its subsidiaries, the Abu Dhabi Water and Electricity Authority and the Emirates Telecommunications Corporation.

Several projects to upgrade infrastructure at existing oilfields are planned or underway. In fact, the past few years have seen the UAE embark on a massive, multi-billion dollar program of investment in its natural gas sector including a shift toward natural gas-fired power plants.

Qatar:

Towering Accomplishments

As the fastest growing economy in the region, the potential for doing business in Qatar is as 'towering' as its impressive skyline.

Qatar is set for rapid expansion in every way. In fact, it's estimated that there is currently $50 billion worth of planned infrastructure projects on the books.

As the fastest growing economy of the region, with a population of three-quarters of a million people, per capita gross national product is approximately US$30,000 – the highest per capita in the region and the second highest in the world.

Qatar is a traditional Arab monarchy in which most power and decision-making authority is vested in the Emir (Shaikh Hamad bin Khalifa Al-Thani). Since 1995, he has implemented several changes in policy, including limited political liberalization, creating an elected council and giving women the right to vote.

While Qatar has experienced exceptional growth since 2000, largely the result of a sharp increase in natural gas exports, the country has experienced the same challenges as other oil-dependent states in the region, particularly the need to diversify economic development beyond crude oil exports. Qatar has implemented a relatively ambitious privatization program (telecommunication and electricity) that should boost economic diversification.

This policy has led to an investment surge in projects for the export of liquefied natural gas (LNG) and petrochemicals. Since Qatar has the world's third largest reservoir of natural gas, the country invested a great deal in this industry in the late 1990s and early 2000s to establish an LNG facility.

In fact, Qatar is aiming to play a leading role in the evolving gas-to-liquids (GTL) technology by becoming the major world-scale GTL centre for the production of ultra-clean petroleum products. The expectation is that the market for this will increase, providing many opportunities for Canadian expertise in this field. Qatar is also leading the region for petrochemical projects such as those underway through Qatar Petroleum. In the water and power sector, huge opportunities exist through the Qatar General Electricity & Water Corporation.

"The income from gas and oil sales, which they see continuing, allowed them to make some fairly dramatic changes to their society," says Canada-Arab Business Council Director General Richard Mann. "This means schools, universities, hospitals, a great deal of commercial real estate development, highways and, of course, tourism." A Canadian Four Seasons Hotel, currently under construction, is just one example of Canadian involvement.

"Canadian construction companies, engineering firms and higher learning institutions are already enjoying success in Qatar due to Canada's positive reputation," says Mark Eyking, Parliamentary Secretary to the Minister of International Trade. In fact, the College of the North Atlantic (based in Newfoundland and Labrador), the largest international Canadian educational project, has established a campus in Qatar.

Photo: © Juergen Hasenkopf/Alamy Images

"What's needed are supplies across the board," adds Mann. Specifically, the 2006 Asian Games being held in Qatar has led to a boom in residential real estate development and athletic facilities. Slated to attract thousands of people to the country, Qatar has pledged US$700 million to build an Olympic-style city for the 10,000 athletes and several thousand officials taking part.

Qatar also has a rapidly growing tourist industry and the number of airlines flying in and out each day has increased dramatically over the last few years. A new airport is planned at an estimated cost of about $2 billion, slated to handle 50 million people per year and opening up travel to the area.

"This is a country that is opening itself up to the world," says Mann. "They truly want to be a member of the world community."

Oman: Pioneer of Privatization

Oman, with its continued emphasis on economic development, modernization and liberal markets, is considered the pioneer of privatization in the Gulf Cooperation Council.

By the standards of most other GCC states, Oman enjoys relatively modest energy resources. With this in mind, Sultan Qaboos bin Said Al Said has actively encouraged economic diversification away from oil revenue dependency, putting a greater emphasis on industries such as tourism and liquefied natural gas (LNG). Oman's *Vision 2020* plan aims to achieve sectoral and economic balance and sustainable growth.

For decades, Oman has been emphasizing economic development, modernization and liberal markets, in order to open up the country. Its stable political, economic and social system is enhanced by its excellent relationships with neighbouring countries.

Despite the large contribution of the oil and gas sector to the economy, it only employs about two per cent of the workforce, prompting the government to encourage job growth in the private sector. As such, the government is moving ahead with privatization of its utilities, the development of commercial laws to encourage foreign investment and increased budgetary outlays. Industrial development plans focus on gas resources. In fact, Oman is often considered the pioneer of privatization in the region and is actively pursuing foreign participation in local projects.

Specific development goals include establishing new industries and industrial estates, training indigenous personnel, developing minerals other than oil, fishing, tourism and increasing privatization of state-controlled enterprises. Sectors offering opportunities include LNG, manufacturing, ports and telecommunications. "Large opportunities within the petroleum industry are presenting themselves through Petroleum Development Oman," says Ihab Tadros, EDC's Regional Manager, International Markets.

Other infrastructure needs include housing and utilities, especially water, and stimulating agriculture to increase food production and discourage urban migration.

Oman's strong performance is expected to continue through 2006, with investments in the upstream and downstream hydrocarbon sector, and in particular gas. In addition, several petrochemical, polypropylene projects and aluminum smelter plants are under construction, as well as fertilizer and methanol projects under development at the Sohar Industrial Port in the Al-Batinah region north of Muscat. ■

The Time to Move is Now

Photo: © Nick Dolding/Getty Images

Given the additional revenues brought in by rising oil prices, the countries of the GCC present huge opportunities for Canadian suppliers. "But don't kid yourself," says Dwain Lingenfelter, Chairman and Chief Executive Officer of the Canada-Arab Business Council (CABC). "Other countries such as Australia, the United States and the United Kingdom are knocking at the door and have established a presence in these countries. Canadian companies need to take advantage of the region's favourable view of Canada, dispel any preconceived notions of instability and build on the success of other Canadians.

"But in order for Canadian exporters to get a bigger piece of the pie, we have to build our presence there, and that includes government and business," says Lingenfelter.

"Our belief is that Canadian business and government need to go hand in hand into a region like the GCC, and this is why we need a bigger Canadian government presence in many of these countries, through organizations such as CIDA, EDC, Foreign Affairs Canada and International Trade Canada. Canadian business organizations have a role too, which is why the CABC is trying to increase the number of business missions into the area." ■

Business etiquette

- No question about it – you have to visit the area. This part of the world values personal contact so it is important to go out and talk to people, get to know potential agents and those conducting business.
- You will not get business by email or telephone calls.
- Do not expect a contract after your first visit. You need to go back and build relationships – but it's worth the investment.
- It helps to have some level of government involvement.
- Become familiar with the distinct Arab cultures and be aware that each country has different cultural standards.

To learn about opportunities

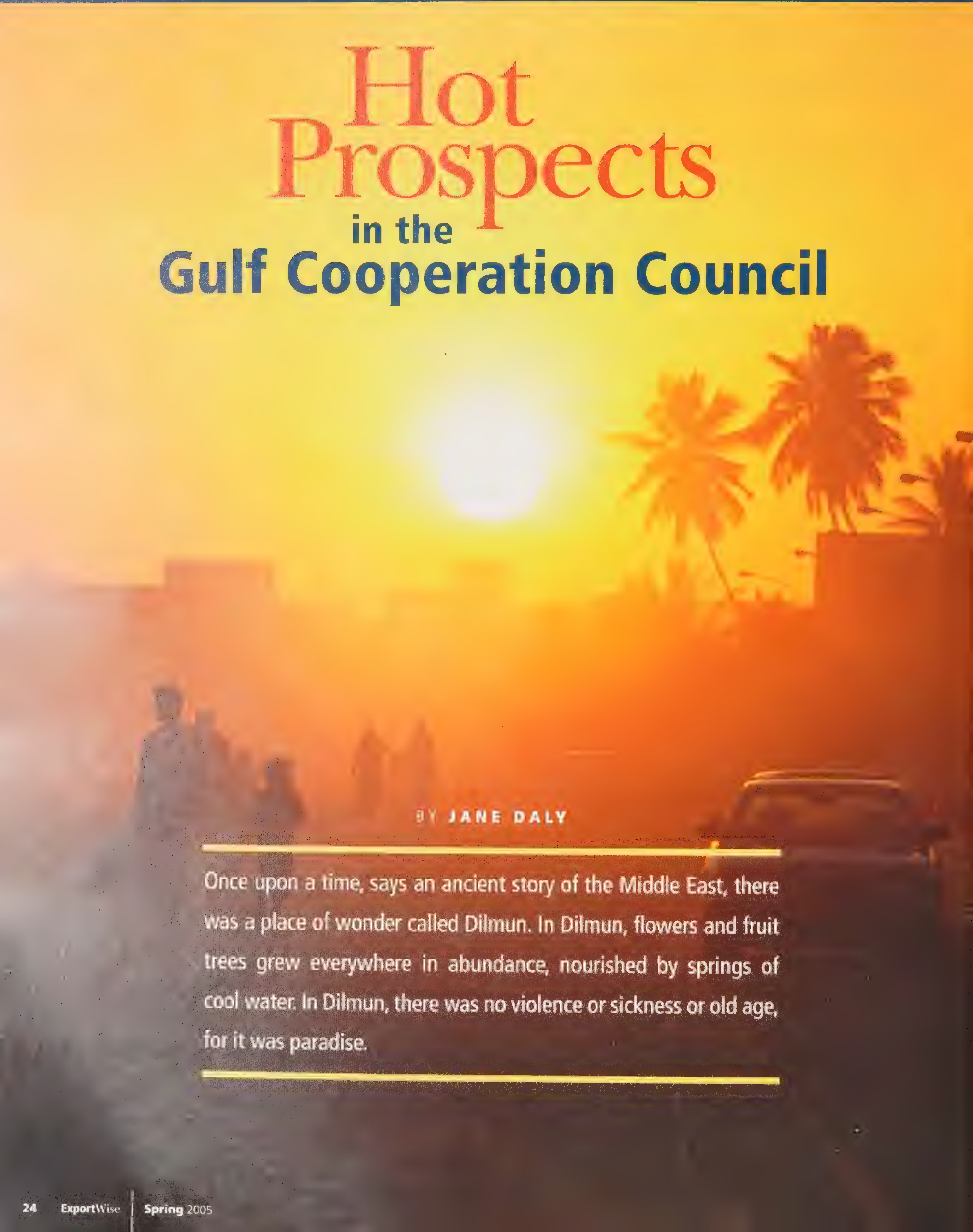
The following sources are a good starting point to learn more about the region:

- Canada-Arab Business Council
  www.canada-arabbusiness.org
- Export Development Canada
  www.edc.ca
  EDC Regional Manager, Middle East:
  Ihab Tadros **itadros@edc.ca**
- Foreign Affairs Canada
  www.fac-aec.gc.ca
- International Trade Canada
  www.itcan-cican.gc.ca
- Embassies
- Business associations
- Companies who have enjoyed success in the region
- Trade shows and conventions

In addition, the Middle East Economic Digest (MEED) provides a weekly update of all project opportunities in the region (available in hardcopy or online at **www.meed.com**).

Helpful contacts:

- **Oman** – The Canadian Embassy in Saudi Arabia represents Canadian interests in Oman
  ryadh@dfait-maeci.gc.ca
- **Qatar** – The Canadian Embassy in Kuwait represents Canadian interests in Qatar
  kwait@dfait-maeci.gc.ca
- **UAE** – Canadian Embassy in Abu Dhabi
  abdbi@dfait-maeci.gc.ca
  Canadian Consulate in Dubai
  dubai@dfait-maeci.gc.ca



Hot Prospects in the Gulf Cooperation Council

BY JANE DALY

Once upon a time, says an ancient story of the Middle East, there was a place of wonder called Dilmun. In Dilmun, flowers and fruit trees grew everywhere in abundance, nourished by springs of cool water. In Dilmun, there was no violence or sickness or old age, for it was paradise.

"There's no small thinking here. Projects can be huge, with big challenges and opportunities to do very interesting things."

– Jim Metcalfe
President and Chief Executive Officer, Cansult Limited

No one knows whether Dilmun really was such a wondrous place, but we do know that it was an island in the Gulf, probably what is now Bahrain. We also know that Dilmun was a great trading state almost 4,000 years ago, its wealth and monuments a marvel to the world around it. But perhaps that should come as no surprise, for wonders continue to be built in the Gulf, such as the Burj Dubai Development that will dwarf world records for the tallest tower and largest shopping mall and even includes a 35-acre man-made lake. And today, Canadian companies are helping to bring these wonders about.

ExportWise asked three Canadian companies to give us a glimpse into what it's like to do business in this historical land: Cansult Limited, an employee-owned firm providing engineering consulting and project management services; SNC-Lavalin Inc., one of the world's leading groups of engineering and construction companies; and Lootah BCGas LLC, a UAE-Canada joint venture in natural gas transmission and distribution. Here's what they had to say.


Photo: Courtesy of Cansult Limited

Cansult Limited can have 100 projects underway at any given time in the region.


Photo: Courtesy of SNC-Lavalin

SNC-Lavalin Inc. has been active in the Middle East for more than 30 years.

It's a hot place to be

A harsh climate is one thing that Canada and the Gulf Cooperation Council have in common; while some Canadians can face temperatures dropping to 50 degrees below Celsius, temperatures there can rise to almost 50 degrees above. Air conditioning is a hot commodity here, while high humidity and a corrosive atmospheric saline content in some areas add special challenges to creating buildings and infrastructure that can withstand the conditions.

But all that is just part of the fun, according to Jim Metcalfe, President and Chief Executive Officer of Cansult Limited. Since 1961, Cansult has provided engineering consultation and project management services to 40 countries, with a special focus on transportation, buildings and infrastructure. They are heavily involved in the region, where they can have 100 projects under way at any given time, from a simple road to a whole subdivision, hospital or college. "There's no small thinking here. Projects can be huge, with big challenges and opportunities to do very interesting things," says Metcalfe. "Engineers get the chance to be creative and really use their expertise."

One such project that Cansult recently provided project management services for is the creation of the Abu Dhabi Trade Center in the United Arab Emirates. Completed in 2004, the complex includes two 14-storey office towers, a 13-storey apartment tower, 300 retail units, restaurants, family entertainment areas, and even a ballroom. The client for this project was His Excellency Sheikh Suroor bin Mohammed, and the cost was almost US$350 million.

"There's definitely money to be spent here," Metcalfe admits. "That also means you're not dealing with aid agencies, so project implementation is much quicker."

Having spent the majority of the last 25 years in this region, Dan Danesh, the General Manager of Lootah BCGas LLC since 1996, has witnessed the quickening pace. Lootah BCGas recently completed the three phases of the EPC Contract for the Sharjah Gas Distribution Project, providing natural gas service to more than 60,000 customers through 750 plus kilometres of pipelines. "The pace has become faster compared to 10 years ago," says Danesh. "You're always busy, everyone else is always busy and time passes very quickly here. It's a very vibrant economy."

Lootah BCGas takes pride in its safety record since beginning operations in the area in 1996.

Business is built on relationships

Zouheir Chebl, Vice-President, Middle East for SNC-Lavalin International, agrees. "This is a region we know well after more than 30 years of working there," he says. "It's growing fast, it's quite rich and it can sustain big projects." SNC-Lavalin began as a small Montreal engineering consulting office in 1911. Early on, a decision to diversify its activities and an ability to provide services to clients worldwide allowed the company to survive the stock market crash of 1929 and the Great Depression. Today, it has a vast international network with offices in more than 30 countries, 10,000-plus employees, and are acknowledged experts in a dozen core industry sectors. An example of one project they have worked on is the Qaseem Regional Electrification Project, which now supplies power to 320,000 people in 300 towns and villages.

All three Canadian exporters caution, however, that while the region is wealthy and profits may be higher than average, the people here are still cost-conscious. Moreover, deals are sealed based on honesty and trustworthiness more than flashy portfolios. "SNC-Lavalin focuses on creating long-term relationships and building trust," says Chebl. "We practise good, conservative management, and we try not to take unnecessary risks. We do a risk assessment for every project valued at $10 million or more. You need to be very honest. Once they trust you, they will continue to deal with you."

Not surprisingly, staying power – rather than looking to make a quick buck – is also key. "You stay, even during challenging times, and that pays off in the long run," says Chebl.

"Eighty per cent of our business is international, but we focus on countries where we can establish a presence and stay," agrees Metcalfe. "We've been in the market since 1965, when they were just emerging as oil producers. Now we have five offices there."

Lootah BCGas has an interesting relationship in that Terasen (previously BCGas) of Vancouver is partnered in a joint venture with the Lootahs, a well-respected family in the region. "Being linked up with a solid family in the region, combined with our Canadian honesty and expertise, gives us a unique niche," says Danesh. "Together we build safe, reliable, state-of-the-art systems and that's how we get more business."

Strong values and ethics

In fact, safety, values and ethics are subjects that all three companies feel very strongly about and it appears these help provide a foundation of trust when building business relationships.

"Safety and being socially responsible are messages we carry from Canada," affirms Danesh. For us, the environment is paramount. We have an HSE (Health, Safety and Environment) policy that's ingrained into every one of our staff. We hold regular internal audits and occasionally external audits as well. Quality and safety are far more important than large profit margins to us." And this vigilance has paid off for Lootah BCGas. There have been no mishaps since the company began operations here in 1996.

SNC-Lavalin puts it in writing when it says it believes sustainable development can only be achieved through the respectful use of natural resources. "Every project must respect the environment and we have our own health, safety and environmental officer for individual projects," states Chebl. "Any project we work on must meet the standards of our environment policy. In addition we often work with CIDA and EDC, who also have their own stringent standards in terms of health, safety and the environment."

And Cansult is a signatory to the United Nation's Global Compact statement, one of only 10 companies in Canada to do so. "We also have a corporate code of ethics, which all employees must sign," says Metcalfe. "We're committed to Canadian values and we have a heritage we can be very proud of."

Bring your own workforce

Of course, there are challenges to working in these markets, and Danesh describes the need to import your entire workforce as being one of them. With the local population consisting mainly of business owners or the independently wealthy, "…you won't find ditch diggers or a manual labour force in this market," Danesh explains. "Even technology workers and middle management are hard to come by."

Danesh says the Indian Subcontinent is one of the main places to recruit from. "However, India is made up of many different cultures. You have to be aware of the sensitivities. But the bonus of dealing with India is that most know English."

Know the risks involved

"We hire people who are both technically and culturally competent, and we're very careful about the companies we work with," says Metcalfe, commenting on how Cansult deals with this risk. "You can't forget you're dealing with a foreign culture with foreign laws. We must adapt to their values as well."

But if the risks are managed, the benefits can be many. "As Canadians, we've been very slow coming into this market," says Danesh. "But the rewards are good. People here like Canadians. They respect our honesty, transparency and professionalism." ■

Photo: © Bruno Fert/CORBIS

Rebuilding After the Tsunami

BY **ROBERT SIMMONS**

As the news of the devastation caused by the tsunami that struck East Africa, South and Southeast Asia on December 26 spread across the globe, Canadians responded with overwhelming generosity to relief efforts. As the relief efforts move toward reconstruction, Canadian companies look for ways to assist in the rebuilding of the region.

As EDC's representative in Malaysia, I have had a chance to meet with Canadian companies doing business in Southeast Asia in the days and weeks following the disaster. Having been deeply impacted by the tsunami, these companies are looking for ways in which they can assist in the reconstruction and enhance preparedness in the region, hoping to avoid a similar tragedy from occurring.

Toward reconstruction

After the relief efforts, there will be a need for long-term reconstruction in the area and there will be many ways in which companies already active in the region can contribute.

The Canadian government has formed an interdepartmental working group, led by International Trade Canada (ITCan), to help provide information to Canadian companies looking to assist in these efforts.

As a member of this group, EDC is working closely with other government departments to ensure Canadian exporters have the tools they need to continue to do business in the region. "We want to hear what Canadian companies need from EDC to support their participation in the reconstruction efforts," explains Peter Nesbitt, EDC's newly appointed Regional Manager in India. "EDC's bonding products are well suited for the types of projects that Canadian companies will be bidding on in this region."

ITCan is the single point of contact for Canadian companies seeking information about the reconstruction efforts.

"Canadian exporters should contact ITCan to make us aware of their interest and capability in the region," says Ken Sunquist, Assistant Deputy Minister, International Trade Canada. "There will be opportunities with, not only the United Nations and International Financial Institutions which are co-ordinating the multilateral response, but also with a number of international non-governmental organizations that are developing longer-term programs for the region. ITCan has a network of Trade Commissioners in the region and around the world that can link these potential business opportunities with suppliers quickly and efficiently."

The tragic event this past December serves to heighten what was already recognized as an urgent need for enhanced investment in infrastructure and public services in Indonesia. Many Canadian companies are already active in the Southeast Asia region and are well positioned to provide the support urgently required. Canada is recognized as a world leader in providing many of the required services, such as environmental planning and services, technology relating to emergency response systems and management of ecologically sensitive marine environments.

Robert Simmons is EDC's Regional Manager for South and Southeast Asia based in Kuala Lumpur. He can be reached at rsimmons@edc.ca.

Information for Canadian exporters

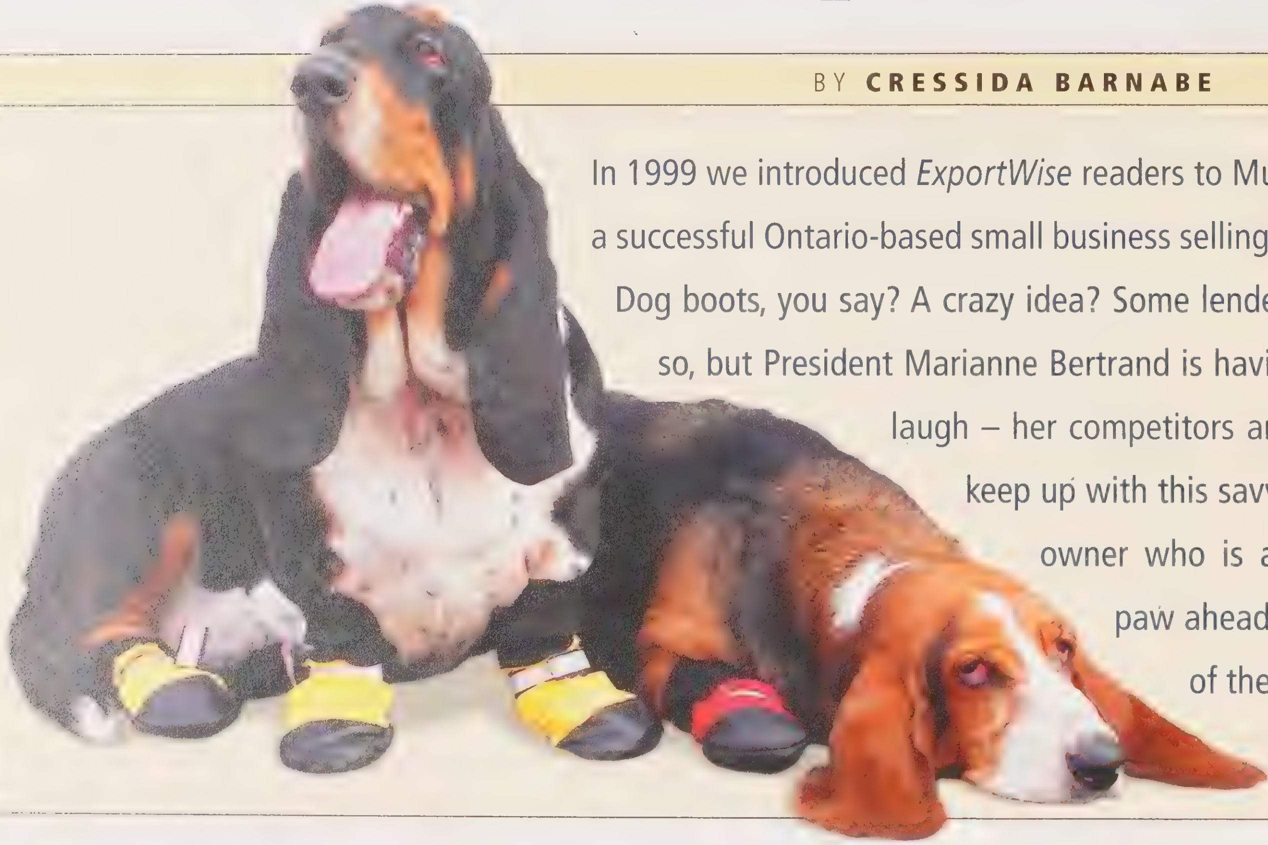
Canadian companies looking for information about Canada's response to the tsunami relief efforts can visit the following web sites.

Government of Canada:
The Government of Canada's comprehensive web site for the tsunami disaster.
www.acdi-cida.gc.ca/canadatsunami-e

International Trade Canada:
Targeted information for Canadian companies who want to learn more about the reconstruction phase.
www.itcan-cican.gc.ca/tsunami/tsunami-response-en.asp

Where Are They Now?

Muttluks: One Paw Ahead of the Competition



BY **CRESSIDA BARNABE**

In 1999 we introduced *ExportWise* readers to Muttluks Inc., a successful Ontario-based small business selling dog boots. Dog boots, you say? A crazy idea? Some lenders thought so, but President Marianne Bertrand is having the last laugh – her competitors are trying to keep up with this savvy business owner who is always one paw ahead of the rest of the pack.

When you started Muttluks in 1994 – out of your home – did you think you would be where you are today?

I had no idea. When I sold my first dog boots, I was just making a mortgage payment, but it went so well that I thought maybe I should start a company. And when I opened the factory, I actually felt I was giving an ounce of sweat equity. I wanted to get it to a certain level, a certain number of employees, so that if I went to a trade show or took a vacation the company wouldn't grind to a halt. We've reached that now.

What has been the greatest challenge since you started your business?

It took all of my energy to get 5,000 pairs of boots out the door that year; now we can do that much in a week. What was so difficult? We were learning. That learning curve takes a whole lot of time and once you know what you are doing, you can do it in half the time or with your eyes closed.

Because the business was growing so rapidly, the strain on cash flow was really tough. Dog boots is an odd business; on one hand we get a lot of press because it's a fun product, but a lot of people didn't take us seriously. We rode that perception for a long time with our competitors. We wanted them to think these were coming out of my basement and I was just some silly woman from Canada.

"I know companies who have done business with customers despite what EDC has said and while they may have been paid for months or even years, they are now caught holding hundreds of thousands of dollars of debt or non-payment."

– **Marianne Bertrand**
President, Muttluks

Photo Photo Features

How has EDC helped your business?

All of our receivables are insured by EDC. As a small company our biggest issue is financing. I cannot afford to have someone not pay me or a customer go out of business, even if they aren't a big part of our business. I was so tight for cash flow; I couldn't afford anyone to go down. I'm running my business. I don't know what state people's finances are in.

If I call EDC and they say they won't insure a customer, I say OK that just saved me a lot of time. I know companies who have done business with customers despite what EDC has said and while they may have been paid for months or even years, they are now caught holding hundreds of thousands of dollars of debt or non-payment. Insuring our receivables also gives us access to working capital. I think the banks lend us more money because they know they will get paid if there is a problem. We wouldn't have the line of credit we do without receivables insurance.

Being in business is such a huge risk in itself so you have to learn how to manage the risks that you can. That costs money too, but the fact that I'm still in business means its working.

How do you stay ahead of the competition?

We listen to our customers. The boot we have today is completely different than the boot we originally designed. Dog boots are a difficult product; they fall off so people get upset and they're weather dependent. You can sell twice as much – or half as much – as your forecast just depending on the weather.

We spend a lot of time servicing our product, finding out what the customers need. Most of the products out there are knock-offs of my product, which tells us we are leading and we are doing something right. So far we are dealing with product and they are dealing with price point.

What advice would you give to other small businesses who may be considering exporting?

Find out what your risks are. Are you dealing with full containers or one-off little boxes? How is that going to work for your company? Don't walk away from business; service your customers the best you can. And the more risks there are, the more barriers there will be. So if you can deal with the risks, you'll break down the barriers and you'll be ahead of the game and your competition will still be sitting at the border.

Where do you see Muttluks in five years?

That's a tough question. In this economic climate, I don't know. Our number one goal is to survive and keep our eyes open for opportunities to stay ahead of our competitors. We've done that really well by always changing our product. We're looking at ways to get money coming in from other areas without having to devote an inordinate amount of time to it. Forget about being a leader in other pet product categories. We want to remain a leader in dog boots.

CUSTOMER PROFILE

Company: Muttluks Inc.
Business: Manufacturing of high quality summer and winter dog boots
Location: Toronto, Ontario
Established: 1994
Employees: 15-20 (up to 40 seasonally)
Exports: 90%
Export Markets: Australia, Germany, United States, United Kingdom, Japan
Contact: www.muttluks.com

Exporting Canadian Expertise to the Developing World

BY **SALLY ENRIGHT**

There are many ways to define the word *product*: manufactured good; item for consumption; merchandise; invention. But what if you are exporting a product you can't see or weigh or measure using traditional sales models? Such was the case for two Ottawa-based non-governmental organizations (NGOs) whose "product" is vital to millions of people in the developing world.

Photo: Courtesy of World University Service of Canada

In September 1999, the Canadian Society for International Health (CSIH) was selected by the Government of Croatia and the World Bank to provide expertise in a health reform initiative. It involved a rigorous international bidding process and CSIH needed a performance security guarantee. Janet Hatcher Roberts, the organization's Executive Director, was well aware of EDC and the products and services it provides to exporters. Her husband works there; her uncle, Wilfred Thomas, was one of its founders. She just didn't know if EDC could help an NGO.

Around the same time, the World University Service of Canada (WUSC) faced a similar dilemma. The secure letter of credit they needed from the bank to implement an overseas project would tie up their cash flow. The bank manager suggested EDC. "Many NGOs don't realize that EDC can help them," says Ravi Gupta, Associate Executive Director, WUSC. "They not only support exports of widgets but intellectual property and wisdom as well."

Originally founded to encourage international understanding in a war-torn world, WUSC has evolved into one of Canada's largest NGOs. "Over the years, WUSC has introduced a lot of prominent Canadians to the developing world," explains Gupta. "As students, former Prime Minister Pierre Elliot Trudeau and current Chief Justice Beverly McLaughlin, have participated in our seminar program."

Not only does WUSC engage Canada's post-secondary community in international education, it deploys Canadians throughout the developing world to help with training, social development and capacity building. "Our mission is to help people help themselves," says Gupta. "We're building sustainability by training the trainers."

WUSC has designed and managed more than 250 projects globally, many working with partner organizations. "Some of these projects are so complex that one NGO cannot do it alone so we must form strategic partnerships," explains Gupta. "For example, we worked on a joint proposal for a project in the Balkans with CSIH."

CSIH's strategic focus looks beyond the treatment of disease. "The reality is that countries can't afford universal health care so we need to take a not-for-profit-driven equity-based approach that takes the principles of fair distribution of health services and builds that capacity in developing countries and countries in economic transition. In Canada, CSIH focuses on awareness and advocacy on health and development issues," states Hatcher Roberts.

CSIH operates the Canadian International Health Registry which allows professionals to tap into a global network of health contacts. It also mobilizes Canadian resources to advocate and facilitate research and education in international health, and manages projects for CIDA, Foreign Affairs Canada, Industry Canada and the World Bank.

"Historically, the focus of international health issues has been on tropical diseases," explains Hatcher Roberts. "But the world has changed over the past 10 years. Now 40 million people are living with the HIV/AIDS virus and SARS reminded us that diseases do not respect borders. Not only are we looking at how we can protect ourselves in Canada, but how we can reach out and build capacity in other parts of the world to strengthen the public health systems to better address these challenges."

Both organizations face the challenges that come with managing projects overseas. One is the risk of sudden currency fluctuations.

"We used to transfer quarterly payments to field offices to pay local workers, and when the currency was devalued to half overnight, we lost thousands of dollars," explains Gupta. "We learned from that experience to have field offices open both local and hard currency accounts, and we now only transfer expenses for a period of one month."

WUSC currently has two projects secured by EDC. "With fluctuations and the need for cash advances when implementing projects, the performance security guarantee helps with cash flow," Gupta says.

The project in Croatia represented the first time that CSIH worked with the World Bank. "The guarantees from EDC helped reduce the risk and made us feel strong in drawing the line in the sand to ensure accountability and transparency," says Hatcher Roberts.

For both organizations the future is clear: to expand their global reach by exporting Canadian expertise to help strengthen and build capacity in developing nations around the world. ■

COMPANY PROFILES

Company: Canadian Society for International Health
Business: Promotes international health and development
Location: Ottawa, Ontairo
Employees: 30+
Export Markets: Africa, Asia, Central and Eastern Europe, Latin America
Contact: www.csih.org

Company: World University Service of Canada
Business: Fosters human development and global understanding through education and training
Location: Head office in Ottawa, Ontario; regional offices in Benin, Botswana, Malawi, Peru, Sri Lanka and Vietnam
Employees: 175+ full time and 500+ volunteers
Export Markets: Africa, Asia, the Balkans, Palestine
Contact: www.wusc.ca

Understanding the Canadian Dollar

BY STEPHEN S. POLOZ

Forecasting exchange rates is the toughest part of the economist's job. Companies should take that inherent uncertainty into account when formulating their business plan.

Photo: © Martin Lipman

Have you ever noticed that economists usually don't mention exchange rates until the very end of their presentations? Is this because (a) they want to save the best for last, (b) this is the subject about which they know the least, or (c) they're ashamed of last year's exchange rate forecast?

While there may be some merit to each of these explanations, the real reason is that the exchange rate depends on everything else in the economist's story. That story is constructed much like a bridge, with a variety of both major structural elements and other minor supports. The exchange rate then crosses the bridge – and that crossing can be very rough should one of the supports fail.

Importantly, the Canadian dollar is a very small currency on the world stage. When one of the big currencies fluctuates, it creates a wave that by definition affects the Canadian dollar. Accordingly, between 1997 and 2001, as the world staggered from one emerging market crisis to another, investors moved their funds into U.S. government bonds for safe keeping, pushing the U.S. dollar up against all currencies, including the loonie. Accordingly, it is only when big currencies are stable that we can focus on home grown forces that affect the Canadian dollar.

Prices for natural resources are one such driver. Canada is a net exporter of commodities such as nickel, copper and oil, and when prices of those items are high, the Canadian dollar tends to rise.

"The Canadian dollar is a very small currency on the world stage."

Inflation is another key driver of the loonie – if there is more inflation in Canada, the Canadian dollar tends to decline, thereby ensuring that Canada-U.S. prices remain reasonably aligned. This is where productivity enters the story – if Canadian companies increase productivity, this will result in lower inflation in Canada and a stronger Canadian dollar.

Interest rates also matter. If Canadian interest rates are expected to rise, while other interest rates remain unchanged, that will often attract more investment and boost the loonie.

Each of these drivers only operates as described when everything else is held constant. When more than one happens at the same time (which is usually the case), the economist must sort out the net effects. Furthermore, such secondary forces are often swamped by fluctuations in the big currencies. Canada could have rising commodity prices and falling inflation, which would point to a stronger loonie, but if the U.S. dollar is rising globally then the Canadian dollar can decline nevertheless.

This framework can explain most of the movements in the Canadian dollar during the past 10 years. The loonie declined from U.S. 75 cents to 62 cents between 1997 and 2001 because the U.S. dollar was rising against all currencies. Then, as the world calmed down, the U.S. dollar declined to its pre-crisis levels and the Canadian dollar recovered into the 75 to 80 cent range. The loonie then overshot into the low 80s because of unusual strength in the price of oil and other commodities. As oil prices drift down into the US$ mid-30s, and metals prices ease back from their 2004 peaks on moderating global growth, the Canadian dollar should settle somewhere in the 75 to 78 cent range.

The bottom line? Forecasting exchange rates is the most difficult part of the economist's job, simply because the exchange rate depends on everything else in the economist's story. Sure, it gets left to the end partly out of modesty, but mostly it just makes sense that way. ■

Stephen Poloz is EDC's Senior Vice-President and Chief Economist. He can be reached at spoloz@edc.ca.

ExportWise

Executive Editor
Rosemarie Boyle
Vice-President, Corporate Communications & External Relations
rboyle@edc.ca

Editor
Brenda Brown
brbrown@edc.ca

Associate Editor
Cressida Barnabe
cbarnabe@edc.ca

Production/Circulation
Deborah Chapman
dchapman@edc.ca

Creative
Insight Communications

Translation
Maguy Robert, Anne Tanguay

Contributors
Cressida Barnabe, Ali Borhani, Terri-Sue Buchanan, Jane Daly, Sally Enright, Dennis Jones, Sandi Jones, Stephen Poloz, Gilles Ross, Robert Simmons, Michael Toope

EDC Advisory Board
Mark Bolger, Rosemarie Boyle, Donna Choquette, Marc Deschênes, Judy Dudley, Todd Evans, Ruth Fothergill, Linda Graupner, Walt Hutchings, Alison Lawford, Diana MacGibbon

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EDC provides trade finance and risk management services to Canadian xporters and investors in up to 200 narkets. Founded in 1944, EDC is a rown corporation that operates on ommercial principles.

ll dollar amounts indicated are in anadian dollars unless otherwise pecified.

e document existe également en version rançaise sous le titre Exportateurs avertis.

rinted in Canada on Canadian ecycled paper.

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In Our Next Issue

Sector SWOT Analysis

The construction services industry means big business for Canada. Hear what our experts have to say about the strengths and weaknesses of this industry, as well as the threats and opportunities for Canadian companies in this sector.

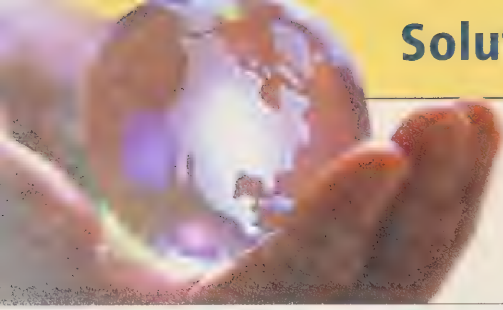
Country Features

Join us as we head to New Zealand and the islands of the South Pacific. We'll explore the opportunities that exist for Canadian exporters in this region and how to find and bid on those projects. We'll also highlight Canada's export history in the region, including challenges and economic conditions.

Small Business Perspectives

In our third feature, we tackle the challenges of exporting to the United States. Canadian exporters often see the U.S. market as an extension of Canada; however, it is a market fraught with risk. Learning how to avoid the pitfalls can mean the difference between bankruptcy and success.

All this and more in the Summer 2005 Issue of *ExportWise*, hitting your desks in July.



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EDC Contacts

Head Office
Export Development Canada
151 O'Connor Street
Ottawa, Canada K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690
Web site: www.edc.ca

Western

contactwest@edc.ca

Linda Niro
Regional Vice-President

Vancouver Office
Tel.: (604) 638-6950
Fax: (604) 638-6955

Edmonton Office
Tel.: (780) 702-5233
Fax: (780) 702-5235

Calgary Office
Tel.: (403) 537-9800
Fax: (403) 537-9811

Winnipeg Office
Tel.: (204) 975-5090
Fax: (204) 975-5094

Ontario

contactontario@edc.ca

Lewis Megaw
Regional Vice-President

Toronto Office
Tel.: (416) 640-7600
Fax: (416) 862-1267

Ruth Fothergill, Vice-President
Corporate Outreach
Tel.: (416) 640-7615
Email: rfothergill@edc.ca

London Office
Tel.: (519) 963-5400
Fax: (519) 963-5407

Ottawa Office
Tel.: (613) 597-8523
Fax: (613) 598-3811

Quebec

contactquebec@edc.ca

Françoise Faverjon-Fortin
Regional Vice-President

Montreal Office
Tel.: (514) 908-9200
Fax: (514) 878-9891

Quebec City Office
Tel.: (418) 266-6130
Fax: (418) 266-6131

Atlantic

contactatlantic@edc.ca

David Surrette
Regional Vice-President

Halifax Office
Tel.: (902) 442-5205
Fax: (902) 442-5204

Moncton Office
Tel.: (506) 851-6066
Fax: (506) 851-6406

St. John's Office
Tel.: (709) 772-8808
Fax: (709) 772-8693

Mexico & Central America

Mexico City
Doug Fortney
Regional Manager
Tel.: (011) 5255-5387-9316
Email: dfortney@edc.ca

Monterrey
Noé Elizondo
Regional Manager
Tel.: (011) 5281-8344-3200 ext. 3360
Email: nelizondo@edc.ca

Brazil & Southern Cone

São Paulo
J. Claudio Escobar
Regional Director
Tel.: (011) 5511-5509-4320 ext. 3320
Email: cescobar@edc.ca

Rio de Janeiro
Fernanda de A Custodio
Regional Manager
Tel.: (011) 5521-2295-0391
Email: fcustodio@edc.ca

Central Europe

Warsaw (Poland)
Dennis Goresky
Regional Manager
Tel.: (011) 4822-584-3240
Email: dgoresky@edc.ca

China

Beijing
Winston Kan
Regional Manager
Tel.: (011) 8610-6532-3536 ext. 3357
Email: wkan@edc.ca

Southeast Asia

Kuala Lumpur (Malaysia)
Robert Simmons
Regional Manager
Tel.: (011) 603-2718-3366
Email: rsimmons@edc.ca

New Delhi (India)
Peter Nesbitt
Regional Manager
Tel.: (011) 91-11-5178-2000
Email: pnesbitt@edc.ca

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